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Affordable Housing & Cross-Sector
Partnerships: Improving the Bottom Line

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Affordable Housing & Cross-Sector Partnerships: Improving the Bottom Line



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Introduction

Inspiration for the Thesis

But the truth is, what our cities need isn't just a partner. What you need is a partner who knows that the old ways of looking at our cities just won't do; who knows that our nation and our cities are undergoing a historical transformation. The change that's taking place today is as great as any we've seen in more than a century, since the time when cities grew upward and outward with immigrants escaping poverty, and tyranny, and misery abroad.¹

President Barack Obama's remarks in his speech "A Metropolitan Strategy for America's Future" given in Miami on June 21, 2008 indicate his belief that urban areas in the U.S. are in a transformation phase, and that new and innovative policy is necessary to combat issues facing urban centers such as poverty, housing and economic development. However, where will the substance of such policies stem from and the dynamic forces needed to execute such policies emanate from? Will it be government agencies, social entrepreneurs in the non-profit arena, for-profit sector agents, or a combination of such forces that create, develop and implement Obama's vision for America's cities? Additionally, how will the U.S. assemble human and monetary capital to synthesize both past lessons learned from urban policies and the current demands?

This thesis will address the above questions by exploring social service delivery, specifically in relation to affordable housing, and the role of government involvement and cross-sector partnerships in the evolving low-income housing process. My interest in the role of cross-sector partnerships and their effect on social service delivery has been paved by a longstanding passion for addressing urban poverty, and my academic and extra-curricular experiences at Penn. Through my research of the causes and consequences of urban poverty as an Urban Studies minor, and my involvement in the Civic House, the community service hub at Penn, I have

¹ Barack Obama. "A Metropolitan Strategy for America's Future," *Young Philly Politics*, June 21, 2008, http://youngphillypolitics.com/obama_039s_metropolitan_policy_speech.

developed a passion for highlighting root causes of and finding solutions to the staggering and problematic consequences of urban poverty. My internships at two real-estate development firms further fostered my interest in affordable housing as a viable and important mechanism to bridge the gaps between diverse communities, combat increasing socio-economic polarization and facilitate cross-sector collaboration in dealing with the U.S.'s social and economic ills. Additionally, my internship at the Netter Center for Community Partnerships at Penn brought my attention to the challenges and promising opportunities of cross-sector partnerships, as the organization is a product of and develops cross-sector collaboration in the West Philadelphia community.

Research Question

The experiences discussed have been central in my decision to focus upon an important and timely research question necessary for tackling issues essential to the future of affordable housing. My question of inquiry is: What kinds of partnerships, if any, between non-profit community development organizations, private sector actors, and local and national government agencies (differentiated by the degree of local initiative and participation) are most effective in generating successful affordable rental housing policy for the lowest-income populations in urban areas with relatively large low-income populations?

My research and analysis led me to the conclusion that a cross-sector model of affordable housing policy and implementation, in which there is collaboration between the public and private sectors, is sound. This is due to the fact that each sector has unique core-competencies that are indispensable to the low-income housing process, which includes advocacy, policymaking, funding programs, development & construction, resident services and performance measurement. However, currently the cross-sector model is decentralized in that

affordable housing players and agencies operate in a policy field that is programmatic and functional. As a result, the players in each sector act as individual agents carrying out specific projects as opposed to a unified force working for common low-income housing goals. Due to such a decentralized system, various important steps in the affordable housing process often get overlooked and success, as defined by the maximal use of sector core-competencies and cost-effective funding allocation, does not occur to its fullest potential.

The lack of a centralized or holistic approach in which all of the facets of the affordable housing process would be spanned, prevents the varying levels of the public sector and the private sector, comprised of for-profit and non-profit entities, from working together in the most effective manner. To create a more well-rounded approach and to set a policy vision and goals which can be achieved, the current decentralized system must adopt a centralized leadership base rooted in the public sector. It is only through such public sector coordination and leadership, driven by federal incentives to state local governments, that the core-competencies of all of the players in each sector can be fully leveraged and synthesized to achieve innovation and success in the delivery of the diverse components of the affordable housing process.

Why Affordable Housing?

In 2006, 17.7 million households were paying more than half their incomes for housing, with the numbers and shares in nearly all age groups and family types—and at all levels of work—on the increase. Meanwhile, the homeless population is up to 744,000 on any given night, and is estimated to be between 2.3 million and 3.5 million over the course of a year.²

Affordable housing is the focus of this paper because it is among one of the most challenging and important social and economic issues, as it is inextricably linked to national economic and social policies.³ The magnitude and scope of the need for affordable housing is illustrated by the fact that among the lowest-income households, 9.1 million renters with

² “The State of the Nation’s Housing 2008,” *Joint Center for Housing Studies*, 2008, <http://www.jchs.harvard.edu/>.

³ Tracy M. Soska “Housing,” in *Encyclopedia of Social Work (e-reference edition)* (2008).

incomes below 30 percent of the median local income receive no housing assistance.⁴ Low-income housing policy is a cause and result of overarching societal problems such as poverty, economic inequality and racial disparities.⁵ Affordable housing is also studied because there is ample public, private and non-profit sector interaction. Institutions within each sector contribute to the affordable housing development and implementation process due to the multi-faceted nature of building, financing and managing housing and the various skill sets required. Additionally, increasing class polarization is both represented by and a product of the housing stock in urban centers, which indicates that affordable housing can shed light on a multitude of other social concerns that contribute to urban poverty. Furthermore, the recent credit crisis followed by a recession of unknown magnitude highlights the severity of the issues to be discussed in the thesis.

According to Gloria Guard, the director of the People's Emergency Center, the oldest social service agency for women in Philadelphia, "the banking industry and the housing industry are inexorably tied to each other, so the housing industry is now facing a pretty enormous crisis of confidence, and any research on how to get these housing units built for the future would be very helpful."⁶ This thesis is committed to conducting such research, and will hopefully aid citizens, politicians and non-profit and private sector leaders in designing the future of affordable housing policy in the United States. While the hypotheses of this paper operate under the assumption that the credit markets, a key driver for most federal affordable housing programs, will reemerge to some extent after the passing of the current financial crisis, the effects of the

⁴ John M. Quigley, "Just Suppose: Housing Subsidies for Low-Income Renters," *Joint Center for Housing Studies of Harvard University* (2007): 14.

⁵ Soska.

⁶ Gloria Guard 12/2/2008.

crisis will be briefly discussed in the conclusion in terms of how affordable housing policy and implementation must react and respond to the deteriorating economic environment.

According to an article entitled, “The New Politics of Affordable Housing” by Robert E. Lang, Katrin E. Anacker and Steven Hornburg, “the politics of affordable housing are a bit perplexing. Because housing is often the largest expense most families face, concern over its cost should register in national politics, yet it does not (although we are not sure whether the current crisis in subprime lending and foreclosure has helped elevate the issue).”⁷ Lang, Anacker and Hornburg suggest that affordable housing is a concern that pervades the lives of many Americans and the U.S. economy, and is in essence, a work in progress. This quote concludes that low-income housing is a policy area that is on the rise in terms of its place on the national agenda.

President-Elect Barack Obama has mentioned in various speeches that affordable housing is a key policy area in his administration. His recent appointment of Shaun Donovan, the current commissioner of the New York City Department of Housing Preservation and Development, to head the Department of Housing and Urban Development (HUD), further represents Obama’s commitment to the issues of affordable housing and urban development. According to Obama, “the final part of my plan to change the odds in our cities will be to ensure that more Americans have access to safe, affordable housing. As President, I’ll create an Affordable Housing Trust Fund that would add as many as 112,000 new affordable units in mixed income neighborhoods.”⁸ Since affordable housing is an increasingly salient issue to politicians and citizens, it is important to understand the political environment and carefully frame the terms of the affordable housing policy arena and debate.⁹

⁷ Robert E. Lang, et al., “The New Politics of Affordable Housing,” *Housing Policy Debate* 18, no.2 (2008): 231.

⁸ Barack Obama, “Changing the Odds for Urban America,” April 18, 2008, <http://www.presidency.ucsb.edu/ws/print.php?pid=77007>.

⁹ Lang, et al., 244.

Paper Structure

The structure of the thesis is divided into three chapters. The first chapter identifies the strengths and weaknesses of the public and private sectors with the conclusion reached that no sector can effectively lead the affordable housing process alone, and that each sector has important skills and core competencies to be maximized. The chapter is organized around three parts: the public sector and the private sector, with separate parts for non-profit and the for-profit entities. Within each of these three sections, sector strengths and weaknesses are highlighted, a brief history of each sector is presented, and counterfactuals are discussed.

The second chapter, by using Philadelphia as an example, describes the complex process of the current affordable housing system to paint a picture of the different players and funding streams that guide the process. This chapter, by providing the reader with a basic background of the current decentralized cross-sector partnership model, also demonstrates the drawbacks of its fragmented nature, as well as introduces the centralized partnership model as an alternative strategy. While the centralized model is also a cross-sector partnership model, it differs from the decentralized partnership model that currently exists by shifting to an approach where the public sector (federal, state and local) serves to influence and change the affordable housing system through its leadership, vision and unification.

Based on the evidence in chapters one and two, the concept of a centralized partnership model, with the public sector as its central driver, is emphasized. The prior segments of this paper collectively suggest that the public and private (for-profit and non-profit) sectors must be involved in the affordable housing procedure and that a leadership gap exists which has seriously curtailed its successful advancement. The chapter identifies who the four dominant groups of players in the centralized partnership model are, what their roles and responsibilities should be,

and what their relationships with the public sector, the central force of the model, should look like. Lastly, the positive implications of a centralized model are illuminated through a proposed vision based on three pertinent policy areas that have both national significance and local applicability. The three components of the vision are: integrated and mixed-income housing, strategic community development and smart and regional growth. The reasons for selecting the agenda items, as well as the strategies and incentives necessary to carry out such goals, and sector roles within these big-picture concepts are discussed.

Research Methodology

The research conducted for this honors thesis can be broken into three categories: secondary scholarly research, current program websites and articles, and primary research. The first category of secondary research was conducted so as to frame past, present and future pertinent affordable housing issues, provide a detailed historical context for the paper and present and weigh diverse theories and strategies. The three main sources that have set the foundation for this historical research are: The “Housing” section of the *Encyclopedia of Social Work*, multiple articles from different volumes of the journal *Housing Policy Debate*, and past State of the Nation’s Housing reports posted on Harvard’s Joint Center for Housing Studies website.

To explore the current state of the affordable housing market, policy process, players and results, a host of sources were reviewed including articles from Policylink.org, the Fannie Mae KnowledgePlex website, the *Housing Policy Debate* journal, the “2008 State of the Nation’s Housing” from Harvard’s Joint Center for Housing Studies website, and urban policy speeches given by Barack Obama and other politicians. The second type of research was a comprehensive investigation of the websites, programs and structures of the key government agencies and private sector organizations involved in affordable housing. By exploring these websites, the

current communication and implementation processes, leadership structures and core-competencies of the public and private sectors were illuminated.

The third category is primary research. I conducted eight interviews with individuals involved in the affordable housing process across all levels of government, and in many different functions in the private sector. These interviewees offered diverse viewpoints that spanned for-profit interests, non-profit concerns and goals, and public sector policy and leadership. The interviewees include: Michael Stegman, the Director of Policy at the MacArthur Foundation's Program on Human and Community Development, who has been a consultant to the Fannie Mae Foundation and an important policymaker at HUD; John Kromer, who is a senior consultant at the Fels Institute of Government and who previously served as the Director of Philadelphia's Office of Housing & Community Development; and Monica Sussman, a lawyer who specializes in all types of real estate transactions and housing and community development law and who was previously Deputy General Counsel of HUD.

Chapter One: No Player Can Play and Win Alone

Introduction

Do cross-sector partnerships enhance the affordable housing process, or do they act as a barrier to direct action? Is the current decentralized cross-sector model necessary to maximize the success of affordable housing in terms of production and positive societal outcomes, or can one sector more efficiently carry out such an agenda? Cross-sector partnerships, or collaboration between the public and private sectors, are a necessary backbone for the implementation of low-income housing strategies because each sector has unique core-competencies that no single sector can possess. Therefore, this policy field cannot be comprehensive and ultimately successful without the diverse voices brought to the table from government agencies at the

federal, state and local levels, and for-profit and non-profit entities, which make up the private sector. Within the three sections of this chapter, sector strengths and weaknesses are highlighted, and counterfactuals are discussed in order to shed light on the negative consequences that would result if any player was either the sole leader or absent from the affordable housing process.

A. The Public Sector: Revolutionary Goals & Concentrated Poverty

Public Sector Historical Overview

Government involvement in the evolution of affordable housing policy for low-income populations can be segregated into two timeframes: the first running from The Housing Act of 1949 to Nixon's moratorium on subsidized production programs in 1973, and the second running from 1973 to today.¹⁰ While the first period was marked by federal control of the entire affordable housing production process through high-rise public housing initiatives, the second period has been defined by the disintegration of a federal leadership role, and increased state and local government responsibilities. The shift to the devolution of leadership and responsibilities to state and local levels was due to recognition by the federal government and low-income housing policy advocates that public housing exacerbated the negative social situations of the lowest-income populations by isolating them in public housing facilities in very poor areas.

Additionally, complete control by the federal government resulted in clashes with local governments, and poor location and design choices resulted from the government's lack of knowledge regarding local demographics and specific housing issues.¹¹ The affordable housing industry therefore went from full federal control to a decentralized cross-sector partnership industry in which multiple players occupy space in the policy and implementation arenas.

¹⁰ Charles J. Orlebeke, "The Evolution of Low-Income Housing Policy, 1949-1999," *Housing Policy Debate* 11, no. 2 (2000): 489.

¹¹ Orlebeke, 497.

The Federal Government

Strengths

The federal government, unlike any other sector or entity, is the engine that enables affordable housing to exist and function. The strengths of the federal government are: making affordable housing a national priority and driving and sustaining the evolution of the industry, and creating funding structures and allocation programs for such funds. The Housing Act of 1949 created a permanent place for affordable housing on the federal policy agenda through its declaration that “the U.S.’s health and living standards required the realization as soon as feasible of the goal of a decent home and suitable living environment for every American family.”¹² The Act was founded on the belief that the federal government would solve the nation’s housing problems through committed political leadership at the top and “the implementation muscle of a technically skilled, socially conscious bureaucracy working its will with an eager housing industry and compliant local governments.”¹³ As a result of the Act, approximately 588,000 units of public housing were started in the 1950s, slum clearance and redevelopment plans were utilized and highrise public housing facilities were built in many urban areas.¹⁴

The creation of the Department of Housing and Urban Development (HUD) in 1965 and the Housing Act of 1968 confirmed the federal government’s commitment to affordable housing production and represents its long-term goal of continually improving the industry. The Housing Act of 1968, in which the notion of federal leadership and efficiency in housing policies triumphed, reaffirmed the Act of 1949 with new well-funded housing subsidy programs, specific

¹² Soska.

¹³ Orlebeke, 290.

¹⁴ Alexander Van Hoffman, “A Study of Contradictions: The Origins and Legacy of the Housing Act of 1969,” *Housing Policy Debate* 11, no.2 (2000): 312

production targets and timeframes, planning requirements aimed at dispersing low-income housing, and a new fair housing act outlawing racial discrimination.¹⁵

Although the 1973 moratorium instigated the devolution of affordable housing implementation and leadership to state and local levels and the private sector, the new slew of programs the federal government created represent its continuous focus on maintaining affordable housing as an important policy area. Additionally, the fact that the federal government rebounded from past ineffective affordable public housing ventures by experimenting with new programs suggests that it understood the need for changing its strategies so as to maximize the success of low-income housing. Examples of such experimentation include the creation of the Housing Voucher Program, initiated in the Community Development Act of 1974. The Voucher program “cut the tie between a subsidized renter and a physical project built solely for low-income occupancy and in doing so, opened up new opportunities for geographic mobility and economic—perhaps even racial—integration.”¹⁶ The Community Development Block Grant Program (CDBG) and The HOME Investment Partnerships Program (HOME) have increased local flexibility in carrying out housing goals by enabling local governments to target their neediest populations and address place-specific housing issues. The Voucher Program, CDBG and HOME have produced hundreds of thousands of units since their inception.

While the affordable housing industry has fundamentally changed between 1949 and 2009, the federal government’s key strengths throughout this entire period have been instigating and driving all policies and programs and continuously improving the system. The federal government’s long history of prioritizing affordable housing as a major national issue and

¹⁵ Orlebeke, 491.

¹⁶ Orlebeke, 503.

providing increasing amounts of funding to finance low-income housing programs make it the solid leader of the field.

Weaknesses

While the federal government has spearheaded the affordable housing industry and driven its evolution throughout the years, the history of its involvement has been very mixed. The government's visionary goals have been negatively affected by its lack of practical oversight, oversimplification of social and economic issues that exist alongside housing, and political pressures. The Housing Acts of 1949 and 1968 lacked practical goals and oversight. In the years following the Act of 1949, public housing fell short of official production targets, new programs failed to gain momentum and executive responsibility for housing was disorganized.¹⁷ While the 1968 Act was created due to the failure of the 1949 Act in reaching its aspirations, and intended to initiate quantified production targets and a disciplined timetable, the implausibility of eradicating low-income housing issues in the set timeframe of 10 years was not focused on by the government, and was not realized until the implementation phases.¹⁸

Negative political and public pressures led the federal government to build affordable housing and support policies that ultimately produced harmful consequences for low-income populations. In the pre-1973 public housing era, whites as well as African Americans often rejected the idea of predominately black public housing, which illuminated local class and racial conflicts. In response to these controversies, housing projects were built near old sites, thus concentrating poverty in lower-class areas of cities, which reinforced rather than eradicated racial ghettos.¹⁹ In the post-1973 affordable housing period the major weakness of the federal government is that it hasn't held local players accountable for their actions. For example, the

¹⁷ Orlebeke, 490.

¹⁸ Orlebeke, 491.

¹⁹ Van Hoffman, 315.

Hope VI program, started under the Clinton administration to rehabilitate distressed neighborhoods and public housing units, and often implemented by private sector developers, has failed to provide a one-on-one replacement of units due to a private sector desire to save money. In light of the current low supply of affordable housing, the federal government's lack of oversight and inability to hold these developers accountable is a major weakness.²⁰ Additionally, the federal government does not currently require property owners of affordable housing units funded through programs including CDBG and HOME to regularly submit data on the incomes and rent burdens of residents. The federal government cannot continue to improve its affordable housing programs and ensure that its goals are being carried out unless such data is collected and reported. The weaknesses of the federal government are thus based on its lack practical reasoning, political pressures and inability to effectively use its public and private sector counterparts in advancing affordable housing policy.

Counterfactuals

In the pre-1973 period when the federal government was the sole leader and implementer of affordable housing, weaknesses such as a deficiency of knowledge regarding local environments, political pressures and oversimplification of diverse housing needs and their connection to other social issues often resulted in increased racial tensions, economic segregation and social ills such as drug use. Affordable housing needs vary in different regions across the country. The federal government cannot tackle these issues without local government and private sector involvement. Therefore, while the federal government is the engine of affordable housing policy, the system is weakened without the participation of other diverse players in the policy field. On the other hand, if the federal government was absent from the policy arena there would

²⁰ Danielle Arigoni, "Affordable Housing and Smart Growth, Making the Connection," *Smart Growth Network Subgroup on Affordable Housing* (2001): 17.

be no low-income housing due to the fact that it is an industry created and sustained, both in terms of funding programs and leadership, by the federal government.

State & Local Governments

Strengths

State and local governments possess two main strengths within the affordable housing system. First, they are in the best position to define their region's low-income housing needs based on a detailed knowledge of multiple factors including local demographics, economic conditions and racial segregation in inner-cities. Their other main strength is their ability to leverage private sector expertise by forming partnerships with for-profit and non-profit entities to implement federal and some state and local funding. Local housing agencies can tailor plans to better fit the needs of residents, integrate housing initiatives with broader community development goals, and avoid inefficient top-down bureaucratic methods through partnerships with the private sector.²¹ State and local governments also have the unique capacity to introduce land-use ordinances that foster affordable housing production through initiatives such as inclusionary zoning, rent controls, and subdivision and parking requirements. For example, the Moderately Priced Development Unit (MPDU) program in Montgomery County, MD, which has required private developers to build a certain amount of affordable units in exchange for increased building density, has led to the production of hundreds of thousands of affordable housing units within a relatively small geographic area.

Weaknesses

The major weaknesses of state and local governments are that they often fall prey to political pressures in the federal funding allocation process, and that they too often succumb to

²¹ Janet L. Smith, "The Space of Local Control in the Devolution of US Housing Policy," *Human Geography* 82 (2000): 222.

constituent groups that strongly oppose pro-low-income housing policies such as inclusionary zoning and permit requirements that create incentives for the construction of such housing. According to Andy Altman, the Deputy Mayor for Community and Economic Development in Philadelphia, “the local request for proposals (RFP) process to non-profit community development corporations and for-profit developers is laden with politics, and that as a result, the process is not as competitive as it should be.”²²

Counterfactuals

It would be impossible for state and local governments to be the sole leaders of the affordable housing policy realm simply due to a lack of monetary and human resources. However, state and local governments play a crucial role as a medium between federal dollars and private sector implementation. The local public sector takes the federal government engine and gives it a direction. On a day to day basis, local political leaders are the face of affordable housing to residents, and can directly alter housing opportunities for low-income populations. State and local governments have the unique ability to unify the public and harness their support for low-income housing policies as well as voice concerns of their diverse constituent groups to the federal government to help inform future policies. Also, without state and local governments, important and varied place-based interests would not be addressed.

B. The Private Sector: Non-Profit Community Voice and Lack of Skill and Power²³

Non-Profit Historical Overview

The contemporary non-profit housing sector is comprised of both Community Development Corporations (CDCs) and larger national and regional non-profit intermediary organizations. While other non-profit players such as housing counseling agencies and

²² Andy Altman 1/22/09

²³ The private sector refers to both for-profit and non-profit entities, not just for-profit corporations.

supportive service providers exist, this paper only explores CDCs and non-profit intermediaries in-depth because they are the dominant non-profit actors in affordable housing, and are the only players present in all stages of the process. While CDCs often emerge as a result of community groups protesting bad neighborhood conditions, the larger non-profit intermediaries were created through cooperative arrangements on the part of local civic leaders, bankers, and public and non-profit organizations.²⁴ CDCs are small, local organizations that provide affordable housing and jobs for neighborhood populations. They are often formed by residents, small business owners, religious congregations, or other local stakeholders that have an interest in revitalizing low or moderate income communities. The larger national and regional non-profits operate on a citywide or regional basis, and have a public/private business model that forges partnerships among the business community and government sectors to create and sustain affordable housing.²⁵

Non-profits entered the affordable housing scene in the 1960s.²⁶ The 1966 Special Impact Amendment to the Economic Opportunity Act and Title VII of the Community Services Act of 1974 produced the first wave of Community Development Corporations (CDCs).²⁷ Between 1966 and 1981, more than \$500 million in federal funds was allocated to 63 CDCs through such programs.²⁸ During the 1990s, CDCs took on a broader range of initiatives that included economic development, youth and workforce development, community organizing and community facilities development.²⁹ The number of CDCs that carried out affordable housing and economic revitalization initiatives drastically increased during the 1990s. From 1991 to

²⁴ Rachel G. Bratt, "Should We Foster the Nonprofit Housing Sector as Developers and Owners of Subsidized Rental Housing?" *Joint Center for Housing Studies of Harvard University* (2008): 6.

²⁵ Bratt, 6.

²⁶ Bratt, 3.

²⁷ Bratt, 3.

²⁸ Bratt, 4.

²⁹ Christopher Walker et al., "National Support for Local System Change: The Effect of the National Community Development Initiative on Community Development Systems," *The Urban Institute* (2002): 15

2001, the number of CDCs that were able to produce over 10 units of housing annually almost doubled.³⁰ Currently, CDCs have produced or rehabilitated more than 1.25 million units of housing, and in general, they have been responsible for a significant percentage of the lower-income housing that has been developed over the last two decades.³¹ CDCs have played a major role in providing housing opportunities to 1.5 million households, which is about one third of the overall low-income housing sector.³²

Strengths

The non-profit sector, being largely driven by a social mission, has been crucial in: bringing the low-income voice to the table on affordable housing issues; providing social services to complement housing; producing affordable housing units; and encouraging resident self-sufficiency. CDCs are also willing to enter low-income neighborhoods that for-profit developers will not serve. One of the largest studies of CDCs, undertaken by Vidal in the late 1980s reported that:

Census tracts in the neighborhoods served by sampled CDCs shows a substantially lower median income than do other census tracts in the same cities...these neighborhoods include a considerably greater proportion of families with children that have incomes below the poverty line and of families on public assistance...If census tracts in each city are ranked according to their median incomes, those served by the sampled CDCs are clearly clustered in more distressed parts of their cities.³³

The non-profit ability to take risks that other developers are unwilling to take, and to invest in very low-income neighborhoods, often stimulates other public and private investment. CDCs are also more effective at delivering services than public and for-profit sector organizations, as their mission is more aligned with local community interests. Such integration makes them better at understanding and addressing community problems.

³⁰ Walker et al., 15.

³¹ Bratt.

³² Bratt.

³³ Bratt, 18.

CDCs facilitate local decision-making processes amongst community members who can then work towards establishing a neighborhood development agenda.³⁴ Researches at the Urban Institute found evidence of strong community alliances and leadership inside neighborhoods with CDCs.³⁵ While housing is the primary focus of CDCs, many also strive to promote resident self-sufficiency. CDCs have thus emerged as leaders in providing what is known as “housing plus” services, or a particular mix of initiatives that depend on a CDCs mission, community needs, staff capacity and the availability of funds.³⁶ Since CDCs have strong ties to their communities, they are better able to manage local community concerns and politics, and they often have connections to city councils and other influential local organizations.³⁷ The strengths of CDC involvement in affordable housing thus lie in resident services, community support, political advocacy and serving as a community liaison.³⁸ Non-profit intermediaries have additional distinct core-competencies. Such intermediary groups provide organizational, leadership and technical assistance to CDCs, fund numerous housing projects, and establish performance metrics by monitoring CDC progress. Another strength of the intermediaries is that they are able to mobilize monetary and policy support from local and national stakeholders. Both CDCs and non-profit intermediaries play a critical role in bringing the voice of the low-income population to bear, developing units in low-income neighborhoods and highlighting necessary supportive services that need to co-exist alongside affordable housing production in order to maximize the effectiveness of resident success.

³⁴ Bratt, 26.

³⁵ Bratt, 27.

³⁶ Bratt, 27.

³⁷ Amy Chung, “Bridging Sectors: Partnerships Between Nonprofits and Private Developers,” *Joint Center for Housing Studies of Harvard University* (2004): 10.

³⁸ Bratt, 38.

Weaknesses

The main weakness of the non-profits involved in the affordable housing process is their lack of development knowledge and expertise. In addition, another systemic shortfall of non-profits is that their long-term viability is often at risk due to a deficiency of financial resources and human capital. A study by Bratt et al. revealed significant concerns with the long-term viability of non-profit CDCs. The properties produced by CDCs examined in the study showed a problematic pattern in capital and operating reserve balances.³⁹ More than one half of the total number of non-profit CDC developers in their sample said they were spending more than they were taking in, and the deficits ranged from 10 to 30 percent of annual operating expenditures.⁴⁰ The CDCs deal with these financial issues by allowing their accounts payable to rise to dangerous levels, or they use nonrecurring sources of income to balance the budget.⁴¹

Additionally, another weak point is that due to CDCs grassroots orientation, non-profit housing development in poor neighborhoods often serves to trap such individuals in dangerous communities with limited economic opportunities. Research has shown that it may be impossible to develop a significant amount of jobs in these areas without linking community development to the centers of economic growth within regions.⁴² Some CDCs that recognize this fact attempt to bring jobs into these low-income areas, but most CDCs still spend the majority of their money solely on housing.⁴³ While the non-profit sector plays an important role in the affordable housing process, its financial stability and human and intellectual capital is often lacking.

³⁹ Bratt, 33.

⁴⁰ Bratt, 33.

⁴¹ Bratt, 33.

⁴² Todd Swanstrom, "The Nonprofitization of US Housing Policy: Dilemmas of Community Development," *Oxford University Press and Community Development Journal* 34 (1999): 31.

⁴³ Swanstrom, 33.

Counterfactuals

While non-profits act both as a citizen voice and as a housing developer, they exist within a federal framework of policies and housing goals. Non-profits only became involved in affordable housing due to federal policies. If non-profits were to be put entirely in charge of the low-income housing process, it would lack the resources and skills to drive an innovative system. Since non-profits serve mainly low-income populations, they would be out of touch with middle and upper class concerns, and would not be able to effectively promote and implement equitable communities. Also, if non-profits sector were the key driver of affordable housing production, the for-profit sector would likely be alienated due to the non-profit sectors lack of capacity to define and implement incentives attractive to for-profit developers. However, non-profits must be present in the affordable housing process because they act as an important check to the public sector and for-profit organizations, as its core strength is its social conscience and direct connection to the citizens being served by affordable housing initiatives.

C. The Private Sector: For-Profit Expertise & the Bottom Line

For-Profit Historical Overview

For-profit developers became involved in the production of affordable housing when the National Housing Act was created in 1937. The National Housing Act provided incentives for private developers to address affordable housing needs with the support of multiple rent subsidies and mortgage insurance programs.⁴⁴ The 1960s saw increased for-profit involvement in the affordable housing process. Starting in the 1960s the federal government stimulated the production of affordable housing by the for-profit sector.⁴⁵ A combination of incentives including below-market financing, federal income tax incentives and annual operating subsidies

⁴⁴ Chung, 3.

⁴⁵ Bruce Katz, et al., “Rethinking Local Affordable Housing Strategies: Lessons from 70 Years of Policy & Practice,” *The Brookings Institution Center on Urban and Metropolitan Policy & The Urban Institute* (2003): 10.

made it profitable for private developers to build affordable housing. Initiated in 1965, the Housing Choice Voucher program enabled low-income households to buy privately owned rental units with federal subsidies. Such demand-side production programs, during the 1960s and 1970s produced over 900,000 affordable housing units.⁴⁶ Housing researchers estimate that 75 to 80 percent of all affordable housing is currently developed by for-profit developers, thus indicating the dominance of the private sector in the affordable housing industry.⁴⁷

Strengths

The core strengths of for-profit developers are their technical expertise, staff capacity, development oversight and practical business sense. This contrasts with the non-profit sector, which places greater emphasis on a social mission. According Ron Kaplan, who is involved in the private sector real-estate industry and was previously CFO of Federal Reality Investment Trust, “the private sector has to be in the affordable housing arena to point out the practical economic picture of affordable housing.”⁴⁸ Kaplan also noted that, “the private sector brings up important practical policy questions that often temper idealistic public sector goals.”⁴⁹ For-profit developers are attractive owners and developers of affordable housing because they bring financial and technical resources to projects, and can often cover land and acquisition costs as well as up-front development costs.⁵⁰ For-profit developers also are often responsible for financial packaging, equity and guarantees and construction management in affordable housing deals.⁵¹

⁴⁶ Katz et al., “Rethinking Local Affordable Housing,” 10.

⁴⁷ Chung, 3.

⁴⁸ Ron Kaplan 1/18/2009

⁴⁹ Ron Kaplan 1/18/2009

⁵⁰ Bratt, 20.

⁵¹ Chung, 10.

Weaknesses

The for-profit focus on the bottom line often conflicts with the long-term affordability needs of low-income residents and the social purpose implicit in affordable housing. A host of problems regarding for-profit involvement in low-income housing have resulted from this tension. Due to such tension, for-profit developers using Low-Income Housing Tax Credits are less likely than non-profit organizations and the public sector to develop housing in areas with the highest percentages of low-income households.⁵² Since such populations require additional services that are challenging to identify and arrange and are unprofitable, for-profit developers often avoid such communities.

The expiring use issue has proven to be another disadvantage of for-profit involvement. More specifically, this issue arose in the 1980s when privately owned subsidized developments reached a point where owners were no longer bound to regulatory agreements that they had signed with HUD to rent their units to low-income populations. It has been costly for the public sector to design incentives to keep for-profit developers from exiting subsidy programs for low-income housing in places where market conditions favor conversion to market-rate rentals or condominiums.⁵³ This problem was slightly mitigated by Acts of Congress in 1987 and 1990 that provided emergency and permanent responses to the issue of expiring use.⁵⁴ The Acts, by guaranteeing owners fair market value incentives to keep housing affordable for 50 years, enabled owners to either continue owning the housing or sell to non-profit groups that made the same long-term affordability commitments.⁵⁵ However, most private developers utilized the incentives for themselves and equity takeouts with little or no funds reinvested in the property

⁵² Bratt, 21.

⁵³ Bratt, 21.

⁵⁴ Bratt, 21.

⁵⁵ Bratt, 21.

occurred.⁵⁶ While private sector developers have brought significant investment capital to the affordable housing table, this required costly tax incentives to accommodate and encourage developers. Furthermore, each of these incentives led to the creation of costly new programs to secure the long-term affordability of properties.⁵⁷

Counterfactuals

While the for-profit technical expertise and profit-based mentality are critical to the effective production of affordable housing and budgetary success, for-profit entities would not be able to lead the process without the public sector and non-profit groups. As with non-profits, for-profits became involved in the affordable housing arena due to public sector incentives. Without being enticed by the public sector through tax credits and other financial benefits, for-profit developers would not be able to profitably produce affordable housing and thus would not participate in the process. For-profits also do not share the same values and organizational strategies as non-profits, and would not be able to facilitate cross-sector partnerships that are vital to successful affordable housing production. Therefore, while for-profit companies are necessary to the process, their core-competencies alone cannot lead an effective process, and would rather result in the potential eradication of affordable housing.

Conclusion

The multiple players within the public and private sectors are crucial to the affordable housing process due to their differing voices and core-competencies. It is only through the synthesis of such distinct strengths that affordable housing policy and implementation can be comprehensive and successful in terms of the amount of units produced, populations reached, and additional social services offered. Therefore, a cross-sector partnership model, although

⁵⁶ Bratt, 22.

⁵⁷ Bratt, 23.

complex and multi-faceted, is necessary due to the wide-reaching prongs of affordable housing, from policymaking, to building, to resident services.

Chapter Two: Current Affordable Housing System—A Decentralized Process

Introduction

“It takes a village to produce affordable housing.”⁵⁸

This was the first statement made by Monica Sussman at our interview on affordable housing. These words provide a concise snapshot of the complicated and decentralized low-income housing process that spans across the public and private sectors. Two broad groups of players dominate this complex affordable housing field: the public sector, made up of the federal government and state and local governments, and the private sector, comprised of for-profit and non-profit organizations. Within each of these sectors, there are multiple entities that play crucial roles in the affordable housing process. This chapter explores the decentralized, fragmented and complicated process by conducting an in-depth exploration of the key programs and players that dominate the current policy arena. One cannot understand why a centralized cross-sector model led by the public sector is necessary until the complexity of the process is identified and dissected. This section is broken up into two parts. First, public and private sector players and programs are identified and described by using Philadelphia as a model to provide a contextual base for the reader. Second, through an analysis of the overall processes and movement of funds, the core facets of decentralization are touched on and the weaknesses of such a system are discussed.

Philadelphia, its players, programs and processes are explored in order to paint a realistic picture of the current decentralized and fragmented affordable housing process. Philadelphia is

⁵⁸ Monica Sussman 1/19/2009

the example studied here due to the fact that it is a transition city and is representative of many other urban areas in terms of funding and the involved public and private players. Philadelphia is analyzed because: the city is at the end of the complex chain of policies and funding; all of the actors that are critical to the process exist in Philadelphia; and the city allows for the exploration of the entire trickle down process from the federal to the local levels. Philadelphia represents the status quo in terms of the decentralized system of low-income housing due to its programmatic, as opposed to holistic and goal-oriented base. While some localities pose exceptions to this decentralized model, such places are not the norm, and differ from the typical affordable housing delivery system due to the preferences of their political leaders. These exceptions often are not permanent, as the housing policies change when such visionary leaders are no longer on the scene.

Philadelphia's enormous vacancy and homelessness rates, as well as its decreasing urban population, like those of other urban areas, have made it imperative for the city to alter its affordable housing policy as it goes through the transition from a manufacturing to a global economy. David W. Bartelt in his article entitled *Urban Housing in an Era of Global Capital*, mentions that Philadelphia is a good example to use to study housing policy reform in light of the new global context, because issues of affordability, abandonment and homelessness which are present in many urban cities have plagued it since its transition from a manufacturing to a service center.⁵⁹ The city also has a balanced public and private sector presence, making it a good example for other urban areas to use to assess the affordable housing policy process and the required players. Philadelphia therefore has the characteristics that make it a microcosm of other urban affordable housing landscapes.

⁵⁹ David W. Bartelt, "Urban Housing in Era of Global Capital," *Annals of the American Academy of Political and Social Science* 551 (1997): 121.

The Public Sector (Federal, State & Local Levels)

The production and retention of affordable housing is both a top down and bottom up process. The majority of affordable housing financing for Philadelphia comes from the federal government and through tax-credits available from the Department of Treasury's Internal Revenue Service (IRS). Nonetheless, such federal funds trickle down to state and local levels, where their use and implementation are determined through a considerable amount of local autonomy. Additionally, the state and local levels have their own agencies that can drive, to a lesser extent, the affordable housing process through initiatives such as permitting, inclusionary zoning and contracting out projects through requests for proposals (RFPs). Thus affordable housing is tangibly shaped by local governments and their private sector partners.

A. The Federal Government

There are six main federal programs that finance and help shape low-income housing in urban areas including Philadelphia:

(1) Public Housing

Public housing is a federally run supply and demand-side production program that involves HUD and local housing authorities. Currently, there are 1.2 million households living in public housing units, managed by 3,300 Housing Authorities, including the Philadelphia Housing Authority.⁶⁰ Housing Choice Vouchers, the main public housing program since its creation in 1974, allows low-income families to purchase or lease privately owned rental housing.⁶¹ While local public housing authorities have a fair amount of autonomy in utilizing public housing funds, The Section 8 Management Assessment Program (SEMAP) measures the performance of

⁶⁰ "Public Housing," in *Homes & Communities*, U.S. Department of Housing and Urban Development, 2009, <http://www.hud.gov/offices/pih/programs/ph/index.cfm>.

⁶¹ "About the Housing Choice Vouchers Program," in *Homes & Communities*, U.S. Department of Housing and Urban Development, 2009, <http://www.hud.gov/offices/pih/programs/hcv/about/index.cfm>.

the public housing agencies that administer the voucher program.⁶² Public housing funding and implementation varies based on the demographics of localities.

(2) Community Development Block Grant (CDBG) program

CDBG, which was started in 1974, provides communities with resources to address multiple community development needs.⁶³ According to the HUD website, “the CDBG program provides annual grants on a formula basis to 1180 general units of local government and States.”⁶⁴ Since Philadelphia and other urban cities are what’s known as entitlement communities, they receive grants directly from the federal government.⁶⁵ To receive a CDBG grant, entitlement communities must submit to HUD a Consolidated Plan that details their economic development and housing goals. The Section 108 Loan Guarantee Program, a part of CDBG, provides communities with financing for economic development, housing rehabilitation, public facilities and large housing development projects.⁶⁶ According to Andy Altman, the Director of Commerce and the Deputy Mayor for Planning & Economic Development in Philadelphia under Mayor Michael Nutter, “the CDBG program is given based on a formula and has some specific programmatic set asides, and is one of the main flows of federal funding for affordable housing in Philadelphia.”⁶⁷ CDBG funds enable Philadelphia to produce about 460 new units of affordable rental housing and rehabilitate around 11,750 units annually.⁶⁸ CDBG

⁶² “Section Eight Management Assessment Program (SEMAP),” in *Homes & Communities, U.S. Department of Housing and Urban Development*, 2009, <http://www.hud.gov/offices/pih/programs/hcv/semapi/semapi.cfm>.

⁶³ “Community Development Block Grant Program,” in *Homes & Communities, U.S. Department of Housing and Urban Development*, 2009, <http://www.hud.gov/offices/cpd/communitydevelopment/programs/index.cfm>.

⁶⁴ “Community Development Block Grant Program.”

⁶⁵ “Community Development Block Grant Program.”

⁶⁶ “Section 108 Loan Guarantee Program,” in *Homes & Communities, U.S. Department of Housing and Urban Development*, 2009, <http://www.hud.gov/offices/cpd/communitydevelopment/programs/108/>.

⁶⁷ Andy Altman 1/22/2009.

⁶⁸ Deborah McColloch, “Year 34 Consolidated Plan,” *City of Philadelphia Office of Housing & Community Development* (2009): 13.

funds are also used to provide social services and job training to about 965,000 individuals annually.⁶⁹

(3) HOME Investment Partnerships program

HOME, started in 1974, is the largest federal block grant given to states and localities to develop affordable housing for low-income households and about \$2 billion are distributed annually. According to the HUD website, “the HOME program provides formula grants to States and localities that communities use often in partnership with local nonprofit groups to fund a wide range of activities that build, buy, and/or rehabilitate affordable housing for rent or homeownership or provide direct rental assistance to low-income people.”⁷⁰ Similar to the CDBG, HOME requires the submission of a Consolidated Plan to receive funds. Philadelphia produces around 1,135 new rental units and provides rental assistance to about 1,825 units annually with HOME funds.⁷¹

(4) Hope VI

HUD’s Hope VI program, started under the Clinton administration in 1992, rehabilitates distressed public housing. The Hope VI Program has four main components: to change the shape of a building or home; to establish incentives for resident self-sufficiency; to lessen concentrated poverty by placing housing in low-poverty neighborhoods and to promote mixed-income communities; and to forge cross-sector partnerships to leverage support and resources.⁷² The Hope VI program has helped fund many rehabilitation projects in Philadelphia to date through the allocation of funds to the local housing authority.

⁶⁹ McColloch, 9.

⁷⁰ “HOME Investment Partnership Program,” in *Homes & Communities, U.S. Department of Housing & Urban Development*, 2009, <http://www.hud.gov/offices/cpd/affordablehousing/programs/home/>.

⁷¹ McColloch, 9.

⁷² “About Hope VI,” in *Homes & Communities, U.S. Department of Housing & Urban Development*, 2009, <http://www.hud.gov/offices/pih/programs/ph/hope6/about/>.

(5) The Low-Income Housing Tax Credit (LIHTC) Program

Run by the IRS, LIHTC is another important and wide-scale federal funding program that has made it easier for the non-profit and private sectors to finance affordable housing projects. The LIHTC program is “an indirect federal subsidy used to finance the development of affordable rental housing for low-income households.”⁷³ Andy Altman states that, “The low-income tax credit program is the most effective federal funding program because one can easily calculate the credits into a pro-forma, non-profit and for-profit developers can easily access the funds, and the process as a whole is more efficient and less politicized than most other federal funding programs.”⁷⁴ Cities receive LIHTC funds through state housing finance agencies, which for Philadelphia is the Pennsylvania Housing Finance Agency (PHFA).⁷⁵ PHFA and state housing finance agencies in other urban cities allocate housing tax credits through a competitive process.⁷⁶ According to the HUD website:

The state allocating agency must develop a plan for allocating the credits consistent with the state's Consolidated Plan. Federal law requires that the allocation plan give priority to projects that (a) serve the lowest income families; and (b) are structured to remain affordable for the longest period of time. Federal law also requires that 10 percent of each state's annual housing tax credit allocation be set aside for projects owned by nonprofit organizations.⁷⁷

Tax credits can be claimed annually over a 10-year period by the property owner. However, the developer usually syndicates, or sells the right to future credits in exchange for upfront cash, to pay for immediate development costs.⁷⁸

⁷³ “How Do Housing Tax Credits Work?” in *Homes & Communities*, U.S. Department of Housing and Urban Development, 2009, <http://nhl.gov/offices/cpd/affordablehousing/training/web/lihtc/basics/work.cfm>.

⁷⁴ Andy Altman 1/22/2009.

⁷⁵ “Low Income Housing Tax Credit,” in *Homes & Communities*, U.S. Department of Housing and Urban Development, 2009, <http://www.hud.gov/offices/fheo/lihtcmou.cfm>.

⁷⁶ “How do Housing Tax Credits Work?”

⁷⁷ “How do Housing Tax Credits Work?”

⁷⁸ “Syndication,” in *Homes & Communities*, US Department of Housing and Urban Development, 2009, <http://www.hud.gov/offices/cpd/affordablehousing/training/web/lihtc/basics/syndication.cfm>.

(6) Neighborhood Stabilization Program (NSP)

NSP, authorized under Title III of the Housing and Economic Recovery Act of 2008 “provides emergency assistance to state and local governments to acquire and redevelop foreclosed properties that might otherwise become sources of abandonment or blight within their communities.”⁷⁹ By the NSP program enabling local governments to purchase abandoned homes, neighborhoods can be stabilized and the decline of home values in neighboring areas is lessened.⁸⁰ Philadelphia, which has a local foreclosure rate of 5.7 percent, and a high local abandonment risk, was allotted \$16.83 million by the NSP program.⁸¹

The administration of federal affordable housing assistance is complex and fragmented, as funds from multiple programs flow independently of one another to state housing finance agencies, local public housing authorities and state and local departments of housing and community development. These state and local agencies then decide how to implement the funding. Therefore, while the entire public sector is critical in the strategic planning and development phases of affordable housing, the federal government programs paint a policy sphere which is programmatic and functional in nature due to the large focus on funding allocation as opposed to specific national affordable housing goals.

B. State Governments

State-level programs serve as a connector between the federal and local levels. States have large decision-making capabilities in terms of allocating money to different localities and establishing standards which control the allocation process. They also have non-monetary

⁷⁹ “Neighborhood Stabilization Program Grants,” in *Homes & Communities*, U.S. Department of Housing & Urban Development, 2009, <http://www.hud.gov/offices/cpd/communitydevelopment/programs/neighborhoodspg/>.

⁸⁰ “Neighborhood Stabilization Program Grants.”

⁸¹ “State and Local NSP Allocations,” in *Homes & Communities*, U.S. Department of Housing and Urban Development, 2009, <http://www.hud.gov/offices/cpd/communitydevelopment/programs/neighborhoodspg/statelinks.cfm>.

authority in terms of creating an environment that encourages affordable housing production. According Monica Sussman, “local governments largely affect the affordable housing process through zoning and permitting laws, specifically inclusionary zoning.” The two state agencies that play a large role in affordable housing in Philadelphia are the Department of Community & Economic Development (DCED) and the Philadelphia Housing Finance Agency (PHFA).

(1) Department of Community & Economic Development (DCED)

DCED, administers housing and redevelopment funds which are distributed annually by the state legislature.⁸² Philadelphia has used DCED funds for its home-repair programs, and to finance homeownership and rental rehabilitation and new construction projects.⁸³

(2) Pennsylvania Housing Finance Agency (PHFA)

PHFA has a variety of financing strategies that it uses to help fund affordable housing. It provides permanent financing for rental projects through a program called PennHOMES.⁸⁴ PHFA also allocates Low-Income Housing Tax Credits to generate private investment in rental projects and provides mortgages to homeowners.⁸⁵ It is estimated that Pennsylvania will receive \$28.6 million in LIHTC funds to distribute to all of its jurisdictions for the 2009 cycle.⁸⁶ In 2007, the last year where a specific LIHTC project breakdown is available, three for-profit development projects used a total of \$1.8 million tax credits and five non-profit developments used a total of \$3.6 million in tax credits in Philadelphia.⁸⁷

⁸² McColloch, 44.

⁸³ McColloch, 44.

⁸⁴ McColloch, 44.

⁸⁵ McColloch, 44.

⁸⁶ “2009 Tax Credit Information by State,” in *Affordable Housing Resource Center*, 2009, http://www.novoco.com/low_income_housing/lihtc/federal_lihtc.php.

⁸⁷ “State LIHC Qualified Allocation Plans and Application Information,” in *Affordable Housing Resource Center*, 2009, http://www.novoco.com/low_income_housing/lihtc/qap_2007.php.

C. Local Governments

Local governments are at the end of the affordable housing funding chain. Once they receive federal and state funds, they use the money to produce housing opportunities. Local governments are imperative in terms of effective allocation of funds due to their heightened knowledge of the communities and geography of the area. At the local level in Philadelphia, five main agencies exist which use funds from both the federal and state governments to implement supply and demand-side affordable housing strategies.

(1) The Office of Housing & Community Development (OHCD)

OHCD is responsible for the creation of the *Consolidated Plan* and the housing budget as well as the administration of federal HOME and CDBG and state DCED funds to other local public sector agencies and private sector organizations.⁸⁸ OHCD and the Deputy Mayor for Planning and Economic Development are tasked with setting housing and community development policy and implementing such policies and programs.⁸⁹ The Director of Housing at OHCD represents the mayor in the execution and management of city housing policy.⁹⁰ OHCD coordinates its planning with PHFA and DCED and contracts with other public agencies including the Redevelopment Authority, the Philadelphia Housing Development Corporation and non-profit organizations that conduct planning and perform services in line with the CDBG and HOME programs.⁹¹

(2) The Redevelopment Authority (RDA)

RDA is an organization funded by federal financing programs that, according to John Kromer, a Senior Consultant at the FELS Institute of Government who previously served for

⁸⁸ McColloch, 43.

⁸⁹ McColloch, 47.

⁹⁰ McColloch, 43.

⁹¹ McColloch, 43.

eight years as the Director of the City of Philadelphia's Office of Housing & Community Development, "makes the final decisions on affordable housing issues."⁹² RDA which was established in 1945 "was granted the powers of condemnation and the ability to buy and sell property, and undertake programs for voluntary repair, rehabilitation and conservation."⁹³ RDA administers multiple bond financed programs and housing production initiatives funded under federal programs including CDBG and HOME.⁹⁴

(3) The Philadelphia Housing Authority (PHA)

PHA administers low-rent public housing and Housing Choice Vouchers. The mission of PHA is to provide quality housing to low-income households, to educate residents and increase opportunities for resident self-sufficiency, and to contribute to the environment.⁹⁵ The PHA is run by a five member Board of Commissioners, two of which are appointed by the City Comptroller, two by the Mayor, and the fifth is chosen by the other four.⁹⁶ PHA is unique because it receives funds from and works directly with the federal government, as opposed to receiving funds from OHCD. The redevelopment activities of PHA's, which are largely funded through Hope VI, help transform distressed neighborhoods and produce mixed-income rental and homeownership units that serve low and moderate income households.⁹⁷ PHA is currently working on four housing projects funded by Hope VI which include the Martin Luther King, Schuylkill Falls, Mill Creek and Richard Allen developments.⁹⁸ The Martin Luther King and Schuylkill Falls developments received roughly around \$25 million each for revitalization and

⁹² John Kromer 1/30/2009.

⁹³ "About the Redevelopment Authority of the City of Philadelphia," in *Redevelopment Authority of the City of Philadelphia*, 2009, <http://www.phila.gov/rda/index.htm>.

⁹⁴ "About the Redevelopment Authority of the City of Philadelphia."

⁹⁵ "PHA Goals," in *Philadelphia Housing Authority*, 2009, <http://www.pha.phila.gov/aboutpha/Goals/>.

⁹⁶ McColloch, 46.

⁹⁷ McColloch, 19.

⁹⁸ "Hope IV Grants," in *Philadelphia Housing Authority*, 2007, http://www.pha.phila.gov/aboutpha/Funding/HOPE_IV_Grants.html.

resident support services.⁹⁹ The Mill Creek development received around \$36 million for demolition, revitalization and support services and the Richard Allen development received about \$13 million for revitalization and demolition.¹⁰⁰ Additionally, PHA administers 11,000 vouchers annually.

(4) The Philadelphia Housing Trust Fund (HTF)

HTF was founded in 2005 to create a sustainable funding stream for affordable housing by doubling document recording fees.¹⁰¹ Fifty percent of HTF funds will be used for programs that increase the production of affordable housing for sale or rent.¹⁰² OHCD staffs the Housing Trust Fund Oversight Board and the Director of Housing currently serves as the chair of the board.¹⁰³ HTF is different than the other four local public sector organizations because it uses local funds, garnered from increasing local document recording fees. Each year HTF produces about 275 units of affordable housing, assists with around 900 home repairs and preservation initiatives and prevents nearly 1,000 families from becoming homeless.¹⁰⁴

(5) The Philadelphia Housing Development Corporation (PHDC)

PHDC services Philadelphia's low and moderate-income households by developing new housing and rehabilitating existing homes through partnerships with Community Development Corporations (CDCs). PHDC renovates vacant houses for sale to qualified buyers. The organization also offers job opportunities to neighborhood residents through requests for proposals, contracts and joint ventures associated with their housing projects.¹⁰⁵ PHDC receives

⁹⁹ "Hope IV Grants."

¹⁰⁰ "Hope IV Grants."

¹⁰¹ McColloch, 164.

¹⁰² McColloch, 164.

¹⁰³ McColloch, 43.

¹⁰⁴ "Philadelphia Housing Trust Funds Becomes a Reality!" in *Philadelphia Housing Trust Fund Campaign*, 2005, <http://www.pacdc.org/TrustFund/>.

¹⁰⁵ "Mission," in *Philadelphia Housing Development Corp.*, 2008, <http://www.phdchousing.org/mission.htm>.

substantial CDBG funds from OHCD.¹⁰⁶ The City has also designated PHDC to be a direct recipient of state DCED funds. The grants fund most of PHDC's programs and day-to day activities.

The Private Sector

The multiple layers of government activity in the affordable housing process are also complemented by non-profit and for-profit involvement. According to Andy Altman, "The city issues an annual request for proposals (RFP) process in which non-profit CDCs and private sector developers bid for projects."¹⁰⁷ Non-profit CDCs, for-profit developers and other private sector players are the main participants in local affordable housing implementation.

(1) Non-profit CDCs

CDCs rehabilitate abandoned and deteriorating buildings for re-sale to low-income populations, provide home repair programs and housing counseling, and build new homes in cost-effective ways. OHCD, as well as all of the other local public agencies provide resources including CDBG and HOME funds to activities sponsored by CDCs. An example of the trickle down effect of federal funds can be seen in the CDC use of such finances. The People's Emergency Center, a CDC based in West Philadelphia, completed a five unit rental development called the Imani House III with CDBG funds.¹⁰⁸ The organization is also currently developing a 60-unit rental development called Cloisters III, and is looking to fund the project with LIHTC dollars.¹⁰⁹ Impact Services Corporation, another CDC developed two units of supportive rental housing with DCED funding.¹¹⁰

¹⁰⁶ "Mission."

¹⁰⁷ Andy Altman 1/22/2009.

¹⁰⁸ "Community Development Corporation's (CDCs)," in *Office of Housing and Community Development*, 2009, <http://www.phila.gov/OHCD/CDCs.htm>.

¹⁰⁹ "Community Development Corporation's (CDCs)."

¹¹⁰ "Community Development Corporation's (CDCs)."

(2) For-Profit Developers

Many for-profit developers are involved in affordable housing development in Philadelphia. The Housing Choice Voucher program enables private owners to rent to low-income households. PHFA administered LIHTC funds have been used successfully by private developers for financing.¹¹¹ According to Monica Sussman, “Low-Income Housing Tax Credits provide an incentive to make the private sector willing to produce affordable housing.”¹¹²

(3) Additional Private Sector Entities

Several additional private sector organizations offer financing for affordable housing projects in Philadelphia. The Reinvestment Fund pools investments from individual and institutional investors to provide a loan fund for housing development.¹¹³ The Local Initiatives Support Coalition (LISC) provides project development funding for affordable housing initiatives. The Philadelphia Urban Finance Corporation offers short-term financing for projects using funds loaned by churches and other religious institutions.

In looking at the entire affordable housing arena in Philadelphia, the below chart sums up each organizational entity and program, their sector affiliation, the direct recipient of their services (funding or other), as well as their functions and leadership.

¹¹¹ McColloch, 46.

¹¹² Monica Sussman 1/19/2009.

¹¹³ McColloch, 45.

Table A: The Affordable Housing Player Landscape in Philadelphia

Source of Funding	Sector Affiliation	Direct Recipients of funding/services	Functions	Leadership
Public Housing & Housing Choice Voucher Program	Federal	Funds to the PHA	Provide funding for low-income housing production through rehabilitation, construction and offer vouchers to purchase privately owned rental housing	HUD
CDBG	Federal	State and local governments	Provide funding for housing production and economic development	HUD
HOME	Federal	State and local governments	Provide funding to build, buy and rehabilitate affordable housing, and provide direct rental assistance to low-income populations	HUD
Hope VI	Federal	PHAs	Provide funding for physical improvements, management improvements and social and community services to address resident needs	HUD
LIHTC	Federal	States	Provide funding for development of affordable rental housing	IRS/HUD
NSP	Federal	State and local governments	Provide funding to acquire and develop foreclosed properties	HUD
DCED	State	Local governments, local private sector actors	Administer housing and redevelopment funds	DCED head
PHFA	State	Local governments, local private sector actors	Provide funding for rental projects and allocate LIHTC funds	PHFA head
OHCD	Local	Local populations via private sector involvement	Writes Consolidated Plan to receive HOME & CDBG funds, sets budget for CDBG, HOME and DCED funds, and contracts with other public agencies and private sector to	Deputy Mayor for Community & Economic Development, OHCD head

			administer CDBG and HOME funds	
RDA	Local	Local populations via private sector	Administer NSP funds, and federal dollars to preserve, expand, and rehabilitate affordable housing stock	Mayor (Chairman of the Board)
PHA	Local	Local populations	Administer low-rent public housing, the housing choice voucher program and Hope VI funds	PHA head
HTF	Local	Local populations via private sector involvement	Increase production of affordable housing through doubling document recording fees	Director of Housing & OHCD head
PHDC	Local	Local populations via private sector involvement	Use federal and local funds to for partnerships with private sector to build and rehabilitate affordable housing and provide jobs to residents	Mayor
CDCs	Private Sector	Low-income neighborhoods	Affordable housing production, rehabilitation and preservation and provision of resident services through public and private sector funds	Social entrepreneurs
Private sector intermediaries	Private Sector	CDCs	Provide technical and organizational assistance and funding to CDCs	Intermediary heads
For-profit development corporations	Private Sector	Local low-income populations	Build affordable housing units with LIHTC and other federal funds or due to state or local land-use regulations	For-profit developers

Analysis

Through exploring the processes and flow of funds between sectors, the fragmented nature of the low-income housing system can be identified. Cross-sector partnerships can either be centralized or decentralized. A decentralized partnership exists in a policy space where

diverse actors are connected through common factors (in the case of affordable housing this factor is funding) but not through one overarching goal or vision that directs the behavior and actions of all the players involved. By looking at the function and leadership columns in the table on Philadelphia (and as an extension most other urban areas in the U.S.) the decentralized model is apparent based on several trends.¹¹⁴ First, although the federal programs that fund all of the state, local and private sector players are led by HUD, the federal government remains absent from the leadership columns of organizations with any other sector affiliation. So while the federal government is the engine of the affordable housing process by providing funds that trickle down to local implementation phases, it does not act as an engine in other ways such as through providing specific goals and an overarching vision. A federal government leadership deficit exists which results in fragmented and geographically varied outcomes of affordable housing production based on different preferences and ideas in both local governments and the private sector.

Second, the flow of the policy process is that the federal government provides funds, state governments administer funds and local governments implement and use funds through leveraging private sector participants. Private sector actors then have flexibility to use this financing to produce, preserve and rehabilitate affordable housing in diverse locations within the confines of the funding requirements. Therefore, the entire focus of the low-income housing process is based on the use of funds. Each agency or organization acts individually to administer and use federal and state funding. This is represented by the fact that most state and local agencies depicted in the chart have different leaders and are not connected through one individual force such as the mayor or governor. For example, both the state PHFA and the local

¹¹⁴ The reasoning behind why Philadelphia represents the majority of the existing urban areas in the U.S. can be found on page 25.

OHCD administer funds in Philadelphia for the production of affordable housing to private sector development organizations, but do not communicate or coordinate allocation activities with each other. This point is illustrated by the absence of a political leader or representative from OHCD or Philadelphia at PHFA board meetings for over two years.¹¹⁵

The current cross-sector partnership model that informs affordable housing policy, execution and outcomes is decentralized due to the fact that distinct players operate in the policy field with different ideas, conceptions, stereotypes and goals. Under such model, the common elements are funding and the requirements directly related to such financing. According to Stephanie Wall, an Outcomes Analyst at the People's Emergency Center CDC in Philadelphia, CDCs and for-profit developers have divergent conceptions of what the end product of affordable housing should look like.¹¹⁶ She mentioned that while Pennrose properties, a for-profit who partnered with the CDC on a project called Cloisters III, was solely interested in investing dollars to build the development, some other for-profit and non-profit developers focus on combining housing with neighborhood development and employment opportunities.¹¹⁷ As a result, inefficiencies exist. According to Lester A. Salamon in his book *Partners for Public Service*, while cross-sector partnerships' presence in social service delivery is effective, some of the weaknesses of the model are that programs get carved into narrow pieces that make them hard to implement and the maintenance needs of private agencies often stunt public sector goals.¹¹⁸ Based on such inefficiencies, Salamon gravitates toward the need for efficient cross-sector partnerships that provide the maximal amount of value to those being served.¹¹⁹

¹¹⁵ "Board Agenda," in *PHFA*, <http://www.phfa.org/about/board/agenda.aspx>.

¹¹⁶ Stephanie Wall 12/11/2008.

¹¹⁷ Stephanie Wall 12/11/2008.

¹¹⁸ Lester A. Salamon, *Partners in Public Service, Government-Nonprofit Relations in the Modern Welfare State*, (Baltimore: The Johns Hopkins University Press, 1995), 12.

¹¹⁹ Salamon, 12.

Another indicator of decentralization is that diverse organizations with different functions use funds for overlapping purposes. In an interview, Monica Sussman mentioned that HUD is incredibly unorganized in terms of its allocation process.¹²⁰ She discussed how funds from each federal program are administered within the confines of their own boundaries, and the allocation of other funding streams for similar purposes is not taken into account.¹²¹ John Kromer said that, “while CDBG and HOME funding allocation is managed through one division of HUD, public housing and LIHTC have totally different processes.”¹²² He also remarked that the different divisions need to be combined in order to give cities more flexibility in terms of the use of funds.¹²³

The results of the fragmentation at the top can be seen in its trickle down effect to state and local levels, and ultimately the private sector. The lack of communication between state and local levels results in an unequal distribution of funds across neighborhoods and creates a competitive, as opposed to a collaborative, environment in which organizations can bid for and use funds. According to Wall, “all of the state and local agencies have complicated and different funding application processes.”¹²⁴ Wall also discussed how the CDC spends a lot of staff time and resources filling out different applications for DCED, PHFA and HOME & CDBG funds to get money from distinct agencies for similar purposes.¹²⁵ The decentralized low-income housing process is therefore inefficient because too great a percentage of federal funds and state and local resources are wasted due to the flow of funding through different channels and frequencies to private sector organizations with overlapping goals and geographic affiliations. While certain

¹²⁰ Monica Sussman 1/19/2009.

¹²¹ Monica Sussman 1/19/2009.

¹²² John Kromer 1/30/2009.

¹²³ John Kromer 1/30/2009.

¹²⁴ Stephanie Wall 12/11/2008.

¹²⁵ Stephanie Wall 12/11/2008.

projects are successful, economies of scale in terms of the most effective use of monetary and human resources is not achieved and the long-term growing affordability issue is not adequately addressed.

Another example of the inefficiency and lack of intergovernmental coordination in the decentralized process is that in Philadelphia, many opportunities to leverage additional public sector funds have been missed. In 2003, when there was a rise in the amount of Low-Income Housing Tax Credits given to PHFA, more than \$6 million of the tax credits were not distributed due to a lack of project applications, which is evidence of a likely lack of knowledge regarding the availability of the tax credits.¹²⁶ The \$6 million could have generated over \$45 million in private investments for affordable rental housing.¹²⁷ Thus holes or blind spots in the actual implementation of affordable housing and its results exist. Under the decentralized model, the local policy field is comprised of many actors fighting for resources, as opposed to working together under a pre-determined set of goals.

The decentralized system is directly tied to the lack of coordinated and focused public sector leadership and vision which helps inform the actions and roles of other public and private sector actors. Thus a centralized model can be defined as a permeable federal vision that would trickle down to local levels through public sector leadership and unification. A centralized system would have similar public and private functions based on the implementation of specific national and locally applicable goals across all sectors. The administration of federal funds would be a tool to achieve these larger goals, and would not be the face of the entire low-income housing process. If the federal government creates a set agenda that state and local political

¹²⁶ “A Philadelphia Housing Trust Fund, Ensuring a Future of Affordable Housing and Neighborhood Revitalization,” in *Philadelphia Association of Community Development Corporations*, October, 2003, <http://www.pacdc.org/TrustFund/about/whitepaperfinal.pdf>.

¹²⁷ “A Philadelphia Housing Trust Fund, Ensuring a Future of Affordable Housing and Neighborhood Revitalization.”

systems carried out by fitting private sector actors into different pieces of the plan based on their strengths, a collaborative atmosphere can be achieved, affordable housing production and strategies within regions can be streamlined, and the system as a whole can more become vision-based as opposed to project-based. When a vision exists, the different natures, opinions and preferences of the sectors can be better harnessed, and their divergent strengths can be synthesized. A central vision led by the federal government and its state and local public sector counterparts would enable local public sectors to use their private sector organizations and fellow government agencies to fit into a big picture that would ultimately aid not just specific communities, but the area's or region's housing patterns in general.

Conclusion

The decentralized cross-sector partnership system is inefficient due to the lack of communication, unification and vision amongst the diverse players in the affordable housing policy field. An alternative model, a centralized cross-sector partnership system is proposed as being a more effective affordable housing strategy. But how can the policy arena transition from the decentralized to the centralized model? The next section explores this question by discussing how a new leadership strategy in which a unified public sector, led by the federal government, can drive this change and effectively leverage private sector core-competencies. While this transition seems subtle, it has far-reaching positive consequences for increasing the opportunity for new innovation and advancement in the low-income housing arena.

Chapter 3: Vision for Reform—Centralized Partnership Model

Introduction

As depicted in the Philadelphia analysis, the current affordable housing system is based on the application of primarily federal funding streams to address low-income housing needs. As a result, the function of the public sector is to allocate funds to private sector partners to implement in an uncoordinated manner, not to focus on overarching goals that could drive the successful and directed use of financial support. Leadership within the sphere is fragmented and lacks coordination and communication. To address the negative results of the decentralized model, the function and leadership variables, as shown in the table on Philadelphia, need to be altered through public sector unification, leadership and collaboration. Thus public sector leadership should be defined as the ability to get other public and private sector players in the affordable housing arena to adopt, implement and expand a single vision. While the centralized partnership model is still complex, as the same diverse actors inhabit the industry, the structure is vision-based as opposed to solely project-based. A system should exist in which state and local governments have significant decision-making power within a framework of federal incentives, standards and performance measures that revolve around specific goals.¹²⁸ Ultimately, the successful application of the model will allow for the core-competencies of each sector to be utilized, while downplaying sector weaknesses.

This chapter is divided into two sections. The first section defines the conceptual framework for the centralized partnership model through identifying the players involved and their roles in the revised structure. The second section illustrates a scenario in which the practical implementation of this altered system occurs. A three-pronged vision is proposed based on

¹²⁸ “Meeting Our Nation’s Housing Challenges,” *Millennial Housing Commission* (2002): 27.

critical affordable housing issues that have both national relevance and opportunities for local innovation and differentiation. Each element of the vision is introduced and then the necessary federal incentives, state and local leadership roles and private sector presence to achieve the vision are explored.

A. Leadership Structure & Players

1. Federal Government Role

While no one level of government or sector can tackle the U.S.'s affordable housing challenges, a holistic affordable housing strategy requires a more vigorous, systematic, innovative and collaborative federal government.¹²⁹ The national government, which is represented by HUD, is the only player that has the fiscal capacity to create housing and neighborhood policies which attempt to combat the consequences of limited wage growth, increasing income inequality, and rising prices nationwide. Furthermore, it is only the federal government, based on its fiscal capacity, that can motivate and drive other affordable housing players including local governments and the private sector to implement effective policies and programs.

While federal programs including LIHTC, HOME and CDBG have been the main tools for affordable housing production and rent reductions, they are not sufficient in that they do not constitute a necessary integrated national housing policy.¹³⁰ Also, while a few state and local governments are taking actions to mitigate the affordability gap through policies such as inclusionary zoning, higher minimum wages and other regulatory initiatives, their potential impact is limited due to the absence of strong federal government leadership that encourages the

¹²⁹ Margery Austin Turner and G. Thomas Kingsley, "Federal Programs for Addressing Low-Income Housing Needs, a Policy Primer," *The Urban Institute* (2008):17.

¹³⁰ Katz et al., "Rethinking Local Affordable Housing," 2.

creation of such land-use policies.¹³¹ The public sector, led by the federal government, thus needs to chart the course for the future of affordable housing, and take a more direct and involved stance. Player interdependence in the low-income housing process must be fostered by the federal government through a comprehensive plan that addresses big-picture affordable housing needs and goals.

In order to drive this new centralized process, the federal government must first define an affordable housing vision, or national priorities in relation to low-income housing. For such vision to have a meaningful long-term effect on state and local governments, and ultimately the private sector, the federal government needs to provide ample incentive structures including tax, regulatory, and other monetary incentives to state and local levels.¹³² Thus the backbone of the modified system will be federal incentives, as well as leadership from HUD in terms of vision creation, that demand local public and private sector leadership and investment in affordable housing policy and implementation in accordance with specific goals.

2. State Government Role

States should continue acting as a medium between the federal and local levels. However, instead of just being a connector for allocating federal and state funds, they should also provide additional incentives to local governments within their jurisdiction to adopt the federal vision. These incentives and policies could include zoning ordinances, as well as regional planning and funding allocation requirements that are in line with federal goals. Increased communication between state and local levels should be required, fostered and rewarded by state governments. A competitive funding application process for state and federal funds allocated at the state level should be initiated in which local governments are encouraged to set up a holistic strategy where

¹³¹ Turner et al., 17.

¹³² Specific incentive structures will be discussed in the practical implementation scenario in the second half of this section. Until specific examples are dealt with it is not possible to define detailed and specific incentive structures.

the federal vision is applied to place-based demographics and housing needs. Cities who present a unified affordable housing strategy under the mayor or a subsidiary of the mayor that addresses the federal vision in innovative place-specific ways should be given priority in terms of funding. It would be effective if states required local governments to include plans in their applications for how they will leverage directed private sector participation through cross-sector partnerships. Since the low-income housing process is so complex and operates on so many levels, state governments are necessary to help inspire local creativity as well as to provide feedback to the federal government in terms of the effectiveness of its vision and its funding programs and incentives.

3. Local Government Role

Local governments have one of the most important and hands-on roles in the new centralized cross-sector partnership model due to the fact that they turn the federal vision into a reality through policy implementation. They need to individualize the federal vision through innovative strategies and unification under the mayor's office. Local governments, in this new structure, form and give direction to private sector partners. Local government leaders need to recognize the strengths of their private sector base, and assist in the partnership formation process by leveraging entities with complementary strengths and weaknesses, so diverse interests and voices can be balanced.

Philadelphia and Boston are compared to illustrate the difference that local level leadership and vision can make in terms of policy innovation and implementation. The major policy documents produced by the two cities—Philadelphia's Year 34 Consolidated Plan for CDBG and HOME funds and Boston's Leading the Way strategy—are used as a basis for comparison because they possess the cities' most comprehensive affordable housing

strategies.¹³³ Philadelphia is used because it is the norm for most urban areas in terms of policy formation and implementation based on the allocation and use of federal funds. Boston is used because it is an exceptional example of the personal investment the mayor has exercised in coming up with a local affordable housing strategy. Each city's documents will be judged based on four criteria: vision, leadership, private sector inclusion and outcome measurement and policy improvement. These criteria were chosen because they touch on the core principles that define and determine the success of the centralized partnership model. An analysis follows the comparison.

Boston

Leadership:

Boston's Leading the Way (LTW) affordable housing strategy, which has been in existence since 2000, is led by Mayor Menino. The three main government agencies in Boston, the Boston Housing Authority (BHA), the Boston Redevelopment Authority (BRA), and the Department of Neighborhood Development (DND), have worked collaboratively to implement the mayor's housing strategy. LTW, while initiated by Mayor Menino, was created with input from the government agencies and the mayor's housing advisory panel, comprised of private sector leaders, representatives from banks and other financial institutions and the Director of Harvard's Joint Center for Housing Studies.¹³⁴

Vision:

The vision set out by Mayor Menino in LTW II, spanning from 2003 to 2007, was grounded by four broad goals: creating 2,100 units of new affordable housing; preserving 3,000 units of affordable rental housing; implementing a \$10 million expansion in the City's efforts to

¹³³ Philadelphia's Year 34 Consolidated Plan is used and Boston's Leading the Way II & III reports are used.

¹³⁴ Mayor Thomas M. Menino, *Leading the Way II* (Boston: The City of Boston Administration, 2008).

house the homeless; and investing in neighborhoods at risk from the effects of the economic downturn.¹³⁵ The new vision set out for LTW III, which was released in March 2009 and will be in effect until 2012, articulated the vision of: producing 1,000 new units of affordable rental housing; reducing Boston's family homeownership and long-term homelessness for individual residents by 50 percent; and repairing, renovating or redeveloping at least 5,000 units of public housing.¹³⁶

Private Sector Inclusion:

Both non-profit CDCs and for-profit developers are involved in the LTW strategy. Through a competitive RFP process for specific projects, CDCs and for-profit developers contribute to building new affordable housing. CDCs produced 63 percent of the city's desired production target in LTW II.¹³⁷ For-profit developers were involved through a new inclusionary development policy in which 10 percent of their units for sale had to be sold at affordable prices.¹³⁸ Due to this new policy, for-profit developers have preserved over 5,000 at risk rental units.¹³⁹ Additionally, the city incorporated CDCs into the solution for its expiring use issue through facilitating the process by which they could purchase expiring units and sell them at affordable prices to low-income individuals or families.¹⁴⁰

Outcome Measurement & Policy Improvement:

LTW II achieved the majority of the goals set out in its vision: 2,213 units of affordable housing were created, 3,569 units of affordable rental housing were preserved including 577 units of public housing that had been reclaimed through redevelopment and rehabilitation, and a

¹³⁵ Menino, *Leading the Way II*, 1.

¹³⁶ Mayor Thomas M. Menino, *Leading the Way III, a Report on Boston's Housing Strategy for 2009-2012* (Boston: The City of Boston Administration, 2008), 1-9.

¹³⁷ Menino, *Leading the Way II*, 8.

¹³⁸ Menino, *Leading the Way II*, 2.

¹³⁹ Menino, *Leading the Way II*, 2.

¹⁴⁰ Menino, *Leading the Way II*, 15.

more effective method of preventing homelessness was established by the creation of the Boston Homeless Prevention Clearinghouse.¹⁴¹ The LTW vision was achieved because of the specific and coordinated planning that occurred to implement these goals. For example, there is an entire section in the report on rental unit preservation and what players were tasked with preservation responsibilities. LTW II exceeded the pivotal goal of preserving 3,000 units of affordable housing by defining three sub-goals which were: preserve units with expiring federal/state affordability restrictions, preserve public housing through renovation and redevelopment, and preserve other privately owned units under physical or financial distress.¹⁴² The city partnered with and tasked the Community Economic Development Assistance Corporation (CEDAC) with preserving expiring use properties.¹⁴³ The Boston Housing Authority was tasked with preserving deteriorating public housing and redeveloping the 55 year old Franklin Hill public housing development. The Authority also developed an “Approach to Preservation” draft, laying out creative initiatives that would generate over \$150 million for critical repairs in the public housing community over the next decade.¹⁴⁴

Philadelphia

Leadership:

Philadelphia’s Year 34 Consolidated Plan is operated under the auspices of Deborah McColloch, the Director of OHCD. McColloch represents Mayor Nutter in the management and execution of city housing policy. McColloch and the OHCD are responsible for organizing and administering the Consolidated Plan. OHCD contracts with other affordable housing

¹⁴¹ Menino, *Leading the Way II*, 2.

¹⁴² Menino, *Leading the Way II*, 15.

¹⁴³ Menino, *Leading the Way II*, 15.

¹⁴⁴ Menino, *Leading the Way II*, 16.

organizations such as the RDA, PHDC and private sector entities to implement CDBG, HOME and other state and federal funds.

Vision:

The three goals of the Consolidated Plan are: to create suitable living environments, to provide decent affordable housing, and to create economic opportunities.¹⁴⁵ The priority needs established under the plan are: affordable housing, homelessness, non-homeless special needs, and non-housing community development. The report also says that Philadelphia will be pursuing certain priorities due to HUD requirements, which include: coming up with strategies for neighborhood revitalization, geographic allocation of resources, removing barriers to affordable housing, improving institutional structure and coordination, as well as instituting public housing resident initiatives.

Private Sector Inclusion:

The various roles of non-profit CDCs and for-profit developers are outlined in the Consolidated Plan. The Consolidated Plan says that, “CDCs may rehabilitate vacant and deteriorated buildings for resale to low or moderate-income buyers or for rental purposes. Some CDCs also sponsor job banks or training programs, provide housing counseling, operate home-repair programs, or undertake commercial development...OHCD’s policy is to provide a substantial portion of its resources to housing activities sponsored by CDCs.”¹⁴⁶ The report also mentions that OHCD works closely with the Philadelphia Association of Community Development Corporations, a non-profit that supports CDCs through technical assistance and advocacy. For-profit developers are involved in the process through the Housing Choice Voucher program and OHCD’s RFP process.

¹⁴⁵ McColloch 44.

¹⁴⁶ McColloch 44.

Outcome Measurement & Policy Improvement:

While the Consolidated Plan sets annual housing completion goals which include projections of how many people will be served and how many units will be created, the benchmarks are based on fulfilling what is necessary based on CDBG and HOME funding requirements. Indicators of success and the amount of funding necessary to complete projects in line with the plan objectives are outlined. For example, one indicator for the affordability objective is to create 160 low and moderate income households in stable housing developments.¹⁴⁷ The funding necessary for the project is projected to be around \$3 million.¹⁴⁸ Who will be carrying out these indicators and during what timeframe is not discussed in the plan. Additionally, no goals and outcomes from the previous year's consolidated plan were mentioned in the document.

Analysis:

Boston's strategy is more holistic and comprehensive than Philadelphia's because it defines specific needs, sets strategies for how to achieve targeted goals, and assigns specific roles to public sector agencies and private sector organizations. As a result of Boston's unified approach, private sector core-competencies were better utilized. For example, due to the specific RFP process based on strategy goals, the housing production created under LTW was evenly distributed across Boston's diverse array of neighborhoods. The city used regulatory restrictions and incentives to get for-profit developers on board to build affordable housing units in higher income areas, and provided funding to organized CDCs, who were most in touch with specific neighborhood needs and concern, to build affordable units.

¹⁴⁷ McColloch, 16.

¹⁴⁸ McColloch, 16.

In contrast, Philadelphia set out three broad objectives which at best illuminated a vague vision. Furthermore, its lack of coordination between public sector agencies and private sector players prevent the Consolidated Plan from being comprehensive. For example, OHCD contracted out federal funds to build projects to other government agencies and the private sector. As a result, affordable housing production was unorganized and varied by neighborhood. Boston, on the other hand, had all of its affordable housing agencies collaboratively divide up and use funds for specific assigned purposes that fit into the mayor's vision. The Philadelphia plan is created for and reactive to the purpose of receiving and distributing federal funds. The process is programmatic and functional, as opposed to organized and visionary. In Philadelphia, local government agencies as well as CDCs and private developers are all described as separate actors with their own agendas. Thus the affordable housing process in Philadelphia is not unified, but fragmented and decentralized.

Another positive effect of Boston's holistic strategy is its ability to set specific production targets and track the success of the players carrying out the goals. While Philadelphia attempted to set indicators of success that were in line with its core objectives, the fact that the indicators were unclear in terms of who would be carrying out projects to fulfill these goals, when they would occur and where they would be located diminishes their potential and effectiveness. The lack of communication between the players in Philadelphia's local affordable housing sphere, as evidenced by the lack of delineation of the relationships between the diverse players that plan and implement housing objectives, undermines Philadelphia's ability to track success in a detailed and accurate manner.

Conrad Egan, the CEO and President of the National Housing Conference, believes that for a city to have a strong affordable housing policy, an inspirational leader must be behind its

inception.¹⁴⁹ Egan also says that such leaders are hard to come by and that their leadership is not due to training, but rather to personal priorities. Mayor Menino falls into this exceptional category.¹⁵⁰ Egan discussed that other than Mayor Menino, Mayor Daley of Chicago and to a lesser extent Mayor Fenty of Washington D.C., most local leaders do not inspire the creation of strong affordable housing policies in which intergovernmental and private sector coordination occurs.¹⁵¹ There is thus a major correlation between political leadership, vision creation and coordinated and effective affordable housing policies. Philadelphia is the norm in terms of its lack of local level leadership and vision. Therefore, to be able to enhance and encourage leadership such as in Boston and to create holistic low-income housing strategies at the local level, federal and state involvement in setting a vision and providing incentives for local leaders to carry out a unified approach to the vision, as Mayor Menino did in LTW, is imperative. The entire centralized system, with the federal government at its core, is meant to pave the way for successful local public sector leadership and performance.

4. Public Sector Coordination

While the federal, state and local governments all have distinct roles in the centralized partnership model, coordination is key to the successful completion of a holistic process. Monica Sussman mentioned that currently there is a lack of trust between the levels of the public sector due to state and local governments having a fearful mindset of the federal government and the ongoing continuity of federal funds.¹⁵² John Kromer discussed how it is important that there is a direct leadership line in the public sector.¹⁵³ The affordable housing vision and goals set out by HUD should be adopted by state and local leaders who are responsible for the production of

¹⁴⁹ Conrad Egan 2/27/2009

¹⁵⁰ Conrad Egan 2/27/2009

¹⁵¹ Conrad Egan 2/27/2009

¹⁵² Monica Sussman 1/19/2009

¹⁵³ John Kromer 1/30/2009

affordable housing and the use of federal dollars.¹⁵⁴ However, in order for this strategy to be effective, positive collaboration must occur.

A system must exist in which state and local governments possess authority within the framework of the federal vision and standards. A task-force should be conducted with housing policy experts, non-profit and business leaders, governors and mayors to help clarify and assign such roles, to determine how public sector leaders can best communicate, and to develop a comprehensive and practical mission statement for the U.S.'s housing vision and policies. Federal, state and local leaders must form a feedback loop in which state and local governments inform HUD on major housing needs and concerns. HUD can then respond to the feedback by continually altering and updating the affordable housing vision to meet wide-spread local concerns. The feedback loop is critical because it enhances intergovernmental communication and coordination and enables the branches of government to provide checks on one another to balance out existing faults such as the local practice of exclusionary zoning policies.

5. Private Sector Role: For-Profit Developers & Non-Profit CDCs

The core-competencies of non-profit and for-profit entities need to be leveraged successfully by a unified local public sector strategy, which in turn has to be motivated by federal and state incentives. In the for-profit realm, the private sector's voice of reason must be brought to the table and taken seriously. In the non-profit arena, CDCs need to be able to advocate for low-income residents and serve the neighborhoods to which they are bound. When local governments carry out projects that are in line with the public sector vision, they should provide the non-profit and for-profit players involved with guidance in terms of specific target goals and how a project fits into the larger national low-income housing agenda. When non-

¹⁵⁴ Bruce Katz, "Rethinking Affordable Housing Strategies," *The Brookings Institute, Metropolitan Policy Program* (2007): 41.

profit and for-profit entities are directed to a specific end goal by public sector leaders, they can avoid tensions based on differing values and focus all of their energies on using their core-competencies. Therefore, local governments must have a greater stake in the partnership formation process, and steer the partnerships to the point where private sector players are doing what they do best. This process will maximize efficiency because it allows each player to have a part in the overall goal based on its strengths. The process will at the same time minimize sector weaknesses by not putting a for-profit or a non-profit entity in charge of every detail from pre-development to end goals.

6. Private Sector Role: National Non-Profit Intermediaries

The coordination and communication between the public and private sectors should be enhanced by non-profit intermediary involvement. The public sector must work closely with non-profit intermediary leaders including Enterprise Community Partners, LISC and Neighborworks America, to help formulate standards that can guide local practices and policies and educate the public, local governments, and private sector organizations. National non-profit intermediaries currently engage citywide organizations, government foundations, financial institutions and community organizations in collaborative efforts to effect community-based neighborhood revitalization.¹⁵⁵ Intermediaries support non-profit CDCs through facilitating the funding process, linking for-profit and non-profit organizations interested in partnerships and encouraging long-term planning.¹⁵⁶ While non-profit intermediaries provide important sources of funding to CDCs, they also have helped CDCs develop and improve their capacity-building, leadership and production systems.¹⁵⁷ Non-profit intermediaries need to continue playing a

¹⁵⁵ Walker et al., 42.

¹⁵⁶ Liza Khan, "The Case for Rental Housing: A Non-Profit Perspective," *Joint Center for Housing Studies of Harvard University* (2005): 31.

¹⁵⁷ Walker et al., 3.

critical role in the affordable housing process by acting as a bridge between national policies and vision and local implementation through the existence of their national and local offices and their ties to all three sectors. They are thus an important check in the new centralized partnership model, and provide another source of unification based on their collaboration with the multiple levels of the public and private sectors.

B. Centralized Partnership Model Vision Scenario

In this section, a scenario is used to illustrate how the centralized process might work and its policy implications. In such scenario, three goals drive an overarching federal vision. While the federal agenda could take on many forms, these goals were chosen based on a study of the most pressing current affordable housing issues and their national importance as well as local applicability. The federal vision for affordable housing should revolve around three core elements: integration; strategic community development; and smart growth and regional housing. This section undertakes an in-depth analysis of these three elements of the proposed affordable housing vision and why such factors are important and need to be addressed. Further analysis is also done on: the different federal and state incentives necessary to coordinate local public sector leadership and facilitate effective private sector involvement, and the specific roles of the federal, state and local governments as well as the private sector in carrying out such wide-scale goals. The vision and federal and state incentives discussed are meant to operate alongside the framework of the current federal funding streams, as these programs have already been set to dominate the affordable housing sphere for the next eight years under the new HUD Secretary Shaun Donovan.¹⁵⁸ Thus, the federal and state level incentives that are necessary to advance the vision will revolve around restructuring the application processes of the current funding streams as opposed to creating an entirely new financial system.

¹⁵⁸ Michael Stegman 2/18/2009

1. Vision Significance

Integration

The integration component of the affordable housing vision includes the promotion of racial and economic diversity through mixed-income housing. According to Conrad Egan, the concept of mixed-income housing must be preserved and must include households with the lowest incomes.¹⁵⁹ Mixed-income housing serves many purposes. If implemented correctly it can be a cost-effective method of producing affordable housing and can prevent further concentration of poverty in inner-city areas, thus resulting in increased racial and economic integration.

A growing body of research indicates that living in high poverty areas can put families and youth at risk, and that affordable housing alone cannot revitalize blighted neighborhoods.¹⁶⁰ However, racial and economic segregation is currently widespread. A national housing analysis of the location of public assisted housing indicated that 37 percent of such housing is located in areas where the poverty level is greater than 40 percent.¹⁶¹ Minority residents of public housing are often concentrated in high-poverty communities. Additionally, NIMBYism is still very prevalent in state and local policies and in residents' sentiments.¹⁶² Housing supported by LIHTC is mainly located in neighborhoods where residents are minorities. About 12 percent are located in neighborhoods where less than 20 percent of the population is minority; 39 percent are located in neighborhoods where 21 to 79 percent are minority, and almost half are located in areas with large minority communities and with poverty rates of 80 percent or higher.¹⁶³ Below is a graph which indicates the extent of racial isolation in affordable housing.

¹⁵⁹ Conrad Egan 2/27/2009

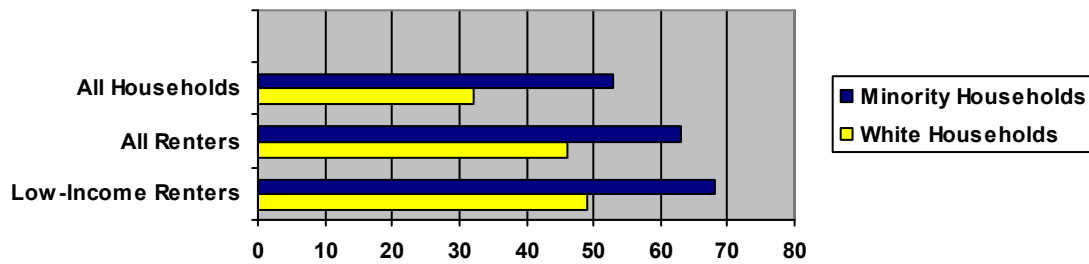
¹⁶⁰ Katz et al., "Rethinking Local Affordable Housing," 18.

¹⁶¹ Katz et al., "Rethinking Local Affordable Housing," 18.

¹⁶² "Not in my backyard," or NIMBYism, is a common reference to negative middle and upper class stereotypes regarding the poor and minority communities.

¹⁶³ Katz et al., "Rethinking Local Affordable Housing," 18.

Figure 2: Percentage of Metro Area Households Living in Center Cities



“America’s Rental Housing, The Key to a Balanced National Policy,” *Joint Center for Housing Studies of Harvard University* (2008): 20.

An example of successful integrated affordable housing is in the Murphy Park area of St. Louis, Missouri. The developer McCormack, Baron & Associates transformed the George L. Vaughn High Rises into a mixed-income area that included townhomes, garden apartments, and single family homes. The goal of the project was to increase diversity and promote sustainable economic performance.¹⁶⁴ The firm partnered with corporate and philanthropic groups to improve the local school and worked with neighborhood residents and its non-profit wing Urban Strategies to formulate the COVAM Community Development Corporation to unify the residents and coordinate community services in Murphy Park and its surrounding neighborhoods.¹⁶⁵ In contrast to other areas with a large amount of affordable housing units in St. Louis, there have been rising employment levels and property values in Murphy Park.¹⁶⁶ Performance at the local school increased, with the percentage of students reading at their normal grade level moving from under 20 percent to 60 percent.¹⁶⁷ The median household income rose by 18 percent within a ten year span compared to 4 percent regionally.¹⁶⁸ Private investment in residential and

¹⁶⁴ Katz, “Rethinking Affordable Housing Strategies,” 47.

¹⁶⁵ Deborah L. Meyerson, “Sustain Urban Mixed-Income Communities, the Role of Community Facilities,” *The Urban Land Institute* (2001): 3.

¹⁶⁶ Meyerson, 4.

¹⁶⁷ Katz, “Rethinking Affordable Housing Strategies,” 48.

¹⁶⁸ Katz, “Rethinking Affordable Housing Strategies,” 48.

commercial development has located in the surrounding area since the development.¹⁶⁹ The Murphy Park development shows that integrated affordable housing policy can have large positive effects on low-income populations and can help revitalize neighborhoods and promote diversity. However, while mixed-income developments have gained momentum in scholarly debate, the majority of affordable housing units across the nation are located in high poverty areas in urban centers.

Pro-affordable housing regulatory land-use incentives including inclusionary zoning and permitting requirements should be used as the key tools to foster public leadership and implementation of the integration prong of the national vision. Currently, many states and localities use local zoning and land use policies to exclude lower-cost housing and its diverse array of residents so as to increase local property values and avoid racial and socio-economic tensions. Historically, early zoning ordinances in the South were designed to separate black and white residents.¹⁷⁰ Although such ordinances were ruled unconstitutional in 1917, local governments have continued to this day to adopt indirectly racial ordinances.¹⁷¹ The regulations that are most detrimental to racial and economic integration are low-density zoning and building permit caps, as they discourage the production of lower-cost homes and create incentives to build larger, more-expensive homes.¹⁷²

Nico Calavita and Alan Mallach in their article “Inclusionary Housing, Incentives, and Land Value Recapture,” mention that “Inclusionary Housing may not be a panacea for the nation’s housing affordability problem, but it can be a significant, locally based component of an overarching strategy in which the federal and state governments must also play significant

¹⁶⁹ Katz, “Rethinking Affordable Housing Strategies,” 48.

¹⁷⁰ Katz et al., “Rethinking Local Affordable Housing,” 68.

¹⁷¹ Katz et al., “Rethinking Local Affordable Housing,” 68.

¹⁷² Katz et al., “Rethinking Local Affordable Housing,” 77.

roles.”¹⁷³ Regulatory policies such as inclusionary zoning are important ways to promote integrated communities and to garner for-profit and non-profit involvement. The use of a pro-affordable housing zoning policy in California provides an empirical example that illustrates how inclusionary zoning can be a successful cross-sector policy to induce affordable mixed-income housing production. California requires its local governments to adopt housing elements in their mandatory general plans. The state mandates that each local government must develop plans and programs and identify sites to accommodate affordable housing.¹⁷⁴ The State Department of Housing and Community Development reviews these local plans, which are revised every five years.¹⁷⁵ While penalties for noncompliance are weak, California’s laws on housing strategies are prescriptive and innovative.

An example of the trickle down effect of California’s state policies can be seen in the city of Pleasanton in the eastern Bay Area. Pleasanton’s slogan, “The City of Planned Progress” has been driven by elected officials and citizens.¹⁷⁶ Pleasanton has a 25 year history of affordable housing planning, has a housing specialist in its planning department and involves public housing authorities in development.¹⁷⁷ The Pleasanton Inclusionary Zoning ordinance requires a set-aside of 15 percent of multi-family dwellings as affordable to low and very-low income populations.¹⁷⁸ Inclusionary units must be dispersed so as to create mixed-income areas, and must be identical to other market-rate units in terms of quality.¹⁷⁹ The city uses in-lieu fees as an

¹⁷³ Nico Calavita et al., “Inclusionary Housing, Incentives, and Land Value Recapture,” *Land Lines, Lincoln Institute of Land Policy* (2008):16.

¹⁷⁴ Katz et al., “Rethinking Local Affordable Housing,” 74.

¹⁷⁵ Katz et al., “Rethinking Local Affordable Housing,” 74.

¹⁷⁶ Rolf Pendall, “From Hurdles to Bridges, Local Land-Use Regulations and the Pursuit of Affordable Rental Housing,” *Joint Center for Housing Studies of Harvard University* (2006): 24.

¹⁷⁷ Pendall, 24.

¹⁷⁸ Pendall, 25.

¹⁷⁹ Pendall, 25.

incentive to private developers to encourage them to build affordable housing as opposed to opting out.¹⁸⁰

While the California and Pleasanton programs had positive results, pro-affordable housing land-use policies are largely confined to a few states. California, New Jersey and Massachusetts account for 56 percent of the jurisdictions that offer regulatory incentives.¹⁸¹ For example, nearly nine out of ten jurisdictions in California have incentive programs.¹⁸² Only about 5 percent of the jurisdictions in the 50 biggest metropolitan areas are estimated to have inclusionary zoning ordinances.¹⁸³ California again leads the use of inclusionary zoning, as 35 percent of its jurisdictions use these ordinances.¹⁸⁴ Such percentage indicates that state leadership and policies largely affect local leadership and the actual implementation of regulatory policies through the creation of ordinances. Due to the lack of wide-scale pro-affordable housing land-use policies driven by the public sector, incentives are needed at the federal and state levels to inspire local public sector leadership that can drive these important land-use policies and as an extension mixed-income and integrated housing.

Strategic Community Development

To maximize the positive effects of mixed-income housing on low-income households, strategic community development objectives and programs should co-exist with and complement affordable housing. Strategic community development is comprised of combining housing development and rehabilitation with economic development, school improvement, employment and training, healthcare, childcare and other social services.¹⁸⁵ There have been multiple

¹⁸⁰ Pendall, 25.

¹⁸¹ Pendall, 14.

¹⁸² Pendall, 14.

¹⁸³ Pendall, 15.

¹⁸⁴ Pendall, 15.

¹⁸⁵ “Meeting our Nation’s Housing Challenges,” 40.

successful strategic community development initiatives started by private sector for-profit and non-profit organizations. In the Murphy Park example already discussed, Urban Strategies, the non-profit arm of the developer McCormack, Baron & Associates (MBA) focused on the socio-economic aspects of the mixed-income affordable housing development.¹⁸⁶ The CEO of MBA sought to establish a year round community school that could serve students, provide access to computer and technology networks and offer job training for parents.¹⁸⁷ MBA partnered with St. Louis Public Schools to revitalize the Jefferson public school and created COVAM to ensure resident participation in the development process.¹⁸⁸ The partnership established a residential leadership team that identified neighborhood needs and created a strategic plan.¹⁸⁹ With support from HUD and \$3.5 million from private funds, the Jefferson school was renovated and an adult computer lab was created.¹⁹⁰ The positive results within the Murphy Park neighborhood previously mentioned would not have been possible without both the renovation of the Jefferson school and the resident participation that was fostered by Urban Strategies.

Another good example of the success of community revitalization within a mixed-income housing development is Homan Square in Chicago's North Lawndale Community. Homan Square is an effort by the Shaw Company (a private developer), the City of Chicago and other partners to provide housing, economic development and a community center. The Homan Square Community Center campus was opened in 2001 and offers health and family services.¹⁹¹ The City of Chicago donated \$15 million for the construction of the community center.¹⁹² A 39,000 square foot recreation wing, opened and run by the Chicago Park District which includes a pool,

¹⁸⁶ Myerson, 3.

¹⁸⁷ Myerson, 3.

¹⁸⁸ Myerson, 3.

¹⁸⁹ Myerson, 3.

¹⁹⁰ Myerson, 4.

¹⁹¹ Myerson, 3.

¹⁹² Myerson, 3.

gym and recreational meeting rooms, as well as two acres of playing fields was built and is actively used by residents.¹⁹³ Additionally, a 22,000 square foot Child and Family Center built by the YMCA of Chicago provides preschool and daycare to more than 3000 children.¹⁹⁴

The Dudley Street Neighborhood Initiative, a non-profit and community based planning entity rooted in the Roxbury/North Dorchester neighborhoods of Boston is another example of enhancing supportive services through visionary local leadership. The initiative is an innovative strategic community development effort. The organization builds human, social and physical infrastructure through its focus on community economic development, leadership development, cross-sector collaboration and youth opportunities and development.¹⁹⁵ As a result of this grassroots neighborhood effort more than half of the 1300 abandoned parcels have been transformed into over 400 new affordable homes, schools, community centers, Dudley Town Common, community greenhouses, parks, playgrounds, an orchard and other public spaces.¹⁹⁶ Due to the comprehensive community services offered, residents have increasingly taken pride in the neighborhood and its revitalization.¹⁹⁷ The organization has grown into a collaborative effort between over 3,000 residents, businesses, non-profits, CDCs, banks, government agencies, corporations and foundations.¹⁹⁸

While initiatives such as Murphy Park in St. Louis, the Dudley Street Neighborhood Initiative in Boston, and Homan Square in Chicago indicate the importance of comprehensive community services that complement affordable housing and neighborhood development, wide-scale initiation of such services can only be adopted through public sector leadership, as

¹⁹³ Myerson, 3.

¹⁹⁴ Myerson, 3.

¹⁹⁵ "History," in *Dudley Street Neighborhood Initiative*, 2008, <http://www.dsni.org/history.shtml>.

¹⁹⁶ "History."

¹⁹⁷ "History."

¹⁹⁸ "History."

indicated by how rare these collaborative projects are. According to the Millennial Housing Commission's report, strategic community development "requires a combination of federal support, state leadership, and local innovation."¹⁹⁹ Unfortunately, due to the fact that the federal funding process is fragmented and requires distinct planning, performance standards and eligibility determinations, many barriers exist to the implementation of additional community services alongside affordable housing and mixed-income developments.²⁰⁰ Funding additional supportive services such as employment, training and enhanced transportation in connection with affordable housing involves multiple agencies with different organizational structures. The barriers discussed above drive up costs and discourage the inclusion of community services affordable housing developments.²⁰¹ It is up to public sector leaders at all levels to overcome these barriers and make low-income housing development not just about building units, but about big-picture goals such as resident self-sufficiency and the reduction of poverty.

Smart Growth & Regional Housing

The need for much enhanced regional housing and smart growth policies is due to the increasingly wide-scale decentralization of economic and residential life. Cities have lost over 7.4 million middle and upper income households that "form the backbone of economically strong communities," while only gaining 3.5 million of such households.²⁰² Historically, urban neighborhoods were located close to entry-level jobs, but today's employment opportunities are often inaccessible for low-income communities in urban neighborhoods to reach.²⁰³ The sprawling economic growth has had negative effects on general public well-being through traffic

¹⁹⁹ "Meeting our Nation's Housing Challenges," 40.

²⁰⁰ "Meeting the Nation's Housing Challenges," 41.

²⁰¹ "Meeting the Nation's Housing Challenges," 41.

²⁰² Katz et al., "Rethinking Local Affordable Housing," 97.

²⁰³ Katz et al., "Rethinking Local Affordable Housing," 97.

congestion and workforce productivity due to long commutes that shorten the day.²⁰⁴

Additionally, the health risks of the current decentralized development patterns are incredibly negative. Low-density, auto-dependent communities are linked to a higher rate of health problems including a growing number of asthma victims.²⁰⁵ Walking or riding a bike to school, the most basic exercise patterns for kids are only taken by one in eight kids due to land-use and zoning standards.²⁰⁶

The current negative externalities of metropolitan communities have sparked interest in regional solutions, but in reality, housing policy discussions remain local.²⁰⁷ Regions as opposed to individual jurisdictions are the appropriate spaces in which to be thinking about affordable housing.²⁰⁸ Enabling low-income families to live near employment centers and transportation nodes will create an overall improved balance between jobs and housing that will stunt some of the negative factors that are associated with current regional growth patterns.²⁰⁹ Smart growth and regional housing development involves policies that are tailored to meet community, economic and environmental needs. These policies invest time in both the restoration of communities and developing new, more-town centered developments that are transit and pedestrian oriented.²¹⁰ The principles that underlie smart growth and the resulting regional housing development policies are: mixed land uses; housing opportunities for a range of household types; attractive communities with a significant sense of place; preservation of open space; reinvesting in existing communities to promote more balanced regional development; providing multiple transportation choices; making development cost-effective and fair; and

²⁰⁴ Katz et al., “Rethinking Local Affordable Housing,” 98.

²⁰⁵ Arigoni, 13.

²⁰⁶ Arigoni, 13.

²⁰⁷ Katz et al., “Rethinking Local Affordable Housing,” 98.

²⁰⁸ Katz et al., “Rethinking Local Affordable Housing,” 98.

²⁰⁹ Katz et al., “Rethinking Local Affordable Housing,” 98.

²¹⁰ Arigoni, 9.

encouraging citizen participation.²¹¹ While criticism of this concept has arisen due to instances where such policies limit the amount of land available and drive up housing prices, these occurrences are largely based on the application of growth management controls which aim to limit growth as opposed to comprehensive smart growth strategies.²¹²

Smart growth enables community development efforts at the neighborhood level to be connected to broader regional development goals and decisions such as infrastructure development patterns and transportation policies.²¹³ The policy concept has also attracted diverse advocates from across multiple sectors including environmentalists, housing developers, local and regional government bodies, and transportation and community development advocates.²¹⁴ It is only through such a large and diverse base that affordable housing can become an accepted issue in the U.S. community and that resolutions and strategies to complicated development issues can be created and implemented.

New Jersey is the only state that has a regional system that could be looked at as a case study. In 1975, in response to exclusionary zoning in Mt. Laurel, New Jersey's Supreme Court ruled that all localities had to provide a realistic opportunity for fair-share housing for households making less than 80 percent of the area median income.²¹⁵ In 1983, the State passed a Fair Housing Act, which created a quasi-judicial administrative agency called the Council on Affordable Housing (COAH).²¹⁶ An incentive was given to municipalities that had an affordable housing plan approved by COAH. In such cases, the municipality would be protected from developer lawsuits.²¹⁷ According to COAH, its work has enabled the creation of 26,800 new

²¹¹ Arigoni, 14.

²¹² Arigoni, 19.

²¹³ Arigoni, 21.

²¹⁴ Arigoni, 14.

²¹⁵ Arigoni, 28.

²¹⁶ Arigoni, 28.

²¹⁷ Arigoni, 28.

affordable units and the rehabilitation of 10,400 units, as well as imposed less restrictive zoning on 14,600 units.²¹⁸ Although the court decision included all municipalities, the COAH process is voluntary, and 260 of the state's 566 municipalities participate.²¹⁹ Making participation mandatory in this plan, as well as in other regional plans would increase the program's effectiveness.²²⁰ While the New Jersey program is promising, the political compromise struck that allows municipalities to pay another developer in a distinct location to build their fair-share housing undermines the idea of regional fair-share housing. Such political compromise highlights the important need for political leadership in promoting affordable housing and regional planning.

2. Public Sector Incentive Structures & Player Roles

Federal Government Role

HUD needs to provide incentives to state and local levels through the use federal funding streams to expand affordable housing production to include the three prongs of the federal vision: integrated housing, strategic community development and smart and regional growth. In order to turn the federal vision required in a centralized partnership model into a reality, the federal government should put together a distinct task force under HUD control comprised of federal, state and local leaders as well as for-profit and non-profit developers, experts from strategic community development programs such as the Dudley Street Neighborhood Initiative, social service practitioners, and transportation and urban planning and design experts. This task force will discuss broad goals in terms of the effective provision of mixed-income housing, strategic community development and regional and smart growth and ways to help make federal

²¹⁸ Arigoni, 28.

²¹⁹ Arigoni, 28.

²²⁰ Arigoni, 28.

and state funding more conducive to promoting, as opposed to hindering, the implementation of a unified vision.

The Millennial Housing Commission believes that state and local government leaders need to have the tools to respond in a coordinated fashion to locally unique, comprehensive development projects.²²¹ Federal government leadership must create a consolidated review process that crosses program boundaries and streamlines funding administration so as not to drain public and private sector energies and strengths through conflicting, overlapping and duplicative demands for information.²²² The Millennial Housing Commission recommends implementing a new potent community development tool that would build on the lessons of successful affordable housing projects and unify funding regulations for such comprehensive projects.²²³ The Commission's proposal, if adopted, would allow state governors to reserve up to 15 percent of their federal block grant funds (including TANF, CDBG, HOME, Workforce Investment Act funds, Social Services Block Grants, Child Care Block Grants, and transportation funding) to support comprehensive redevelopment projects sponsored by local governments."²²⁴ Localities that agree to undertake these comprehensive projects would apply to states for funding through HUD program dollars already administered at the state level and a consolidated program review process and distribution of funds would occur following the application process.²²⁵ While the Commission's proposal is sound, it must go one step further by not only offering state and local governments the opportunity to produce mixed-income, regionally friendly developments with supportive services, but also by encouraging and providing benefits to local levels for partaking in these projects.

²²¹ "Meeting the Nation's Housing Challenges," 41.

²²² "Meeting the Nation's Housing Challenges," 41.

²²³ "Meeting the Nation's Housing Challenges," 41.

²²⁴ "Meeting the Nation's Housing Challenges," 41.

²²⁵ "Meeting the Nation's Housing Challenges," 41.

The federal government must set up a system in which the allocation of funds is based on fostering and encouraging local leadership and a corresponding unified and coordinated strategy in line with the federal vision. The chart below outlines the federal funding programs, their current application requirements and the necessary alterations in funding criteria that need to be made to achieve state and local public sector leadership in the implementation of the federal vision in diverse urban centers across the country.²²⁶

Table B: Additional Funding Stream Criteria Required for Centralized Partnership Model

Funding Streams	Current Funding Stream Requirements²²⁷	Additional Criteria Necessary for Centralized Partnership Model
CDBG/HOME	A Consolidated Plan that: outlines the local affordable housing need and provides a housing and market study.	A Consolidated Plan that requires: proof of public sector coordination through a strategy under the mayor; effective leveraging of both non-profit and for-profit entities through detailed project descriptions; projects and policies that individualize and promote mixed-income housing through zoning ordinances and pro-affordable housing land-use policies, strategic community development and regional and smart growth through regional fair-share housing allocation plans.
Public Housing—Housing Choice Voucher Program & Hope VI	A 5 year annual PHA plan that: outlines housing needs; housing choice voucher capacity; community service and self-sufficiency initiatives; rent determination; and operations and management policies in PHA properties.	A 5 year annual PHA plan that requires: a coordinated role of the PHA under the mayor's strategy as indicated by being mentioned in detail in the Consolidated Plan; detailed plans for projects with a combination of mixed-income housing, strategic community development and regional and smart growth.
LIHTC	A Qualified Application Plan that: outlines projects that serve the lowest income families and are structured to remain affordable for the longest period of time.	A Qualified Application Plan that: outlines specific projects in line with the federal vision, and shows how the potential projects fit in with the local coordinated strategy discussed in the Consolidated Plan.

²²⁷ All current funding stream requirements can be found in the descriptions of each program on the HUD website (www.hud.gov).

NSP	A NSP Grant Submission Template & Checklist that: requires funds to be distributed to areas with the greatest need, including those with the greatest percentage of home foreclosures, and also requires a description of each project to be undertaken using NSP funds.	A NSP Grant Submission Template & Checklist that: describes projects where funding will go towards mixed-income housing with strategic community development services and a regional and smart growth elements, and has a focus that is aligned with the local and state government leadership. Additionally, the plan must show how the projects geographically complement other projects outlined in the Consolidated Plan and the Qualified Application Plan.
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By requiring some of the criteria on the different funding applications as well as allowing some of the criteria to be optional, but with the added benefit of receiving additional or streamlined funds if completed, the federal government can inspire state and local leadership and effective and unified local and private sector implementation. The adoption of these new criteria enables the interaction between the varying levels of the public sector and the private sector to revolve around achieving a specific vision as opposed to simply allocating funds.

The federal government almost must demand the accountability of state and local affordable housing players. While the federal government currently requires PHAs and the owners of properties with permanent rent subsidies to collect and submit information on an annual basis about resident incomes and rent contributions, LIHTC, CDBG and HOME do not require property owners to regularly submit data on the incomes and rent burdens of residents.²²⁸ As a result, less is known about these programs' long-term impact on housing affordability due to the fact that it is impossible to track who is served, mobility patterns and changing prices.²²⁹ According to John Kromer, "not enough studies look at the effectiveness of affordable housing

²²⁸ Katz et al., "Rethinking Local Affordable Housing," 101.

²²⁹ Katz et al., "Rethinking Local Affordable Housing," 101.

programs and resident patterns in affordable housing units.”²³⁰ He also mentioned that such studies are necessary and critical to the successful revision of current low-income housing programs.²³¹ Public sector leadership, from federal to state to local levels, must require performance measures and must base the distribution of funds and the formation of programs on the results of these metrics. Public sector leaders also need to critically review and assess the capacity of the organizations that are implementing affordable housing programs. Such leaders need to ask whether the organizations have sufficient resources, capable staff members, necessary experience and incentives designed to promote effective administrative performance.²³²

There are multiple strategies the public sector can use to hold itself and the organizations involved in the affordable housing process accountable. Performance data should be collected and published regularly.²³³ Communities can also enter into performance-based contracts with public agencies, for-profit companies and non-profit organizations, in which payments and funds are tied to performance targets.²³⁴ All affordable housing strategies at the local leadership level should be required to set a formal performance measurement plan in which goals are set out, and quantitative short-term output indicators and long-term outcome indicators of success are defined. The chart below, taken from Bruce Katz’s article “Rethinking Local Affordable Housing Strategies,” is an example of a performance measurement plan for a regional fair-share allocation policy.

²³⁰ John Kromer 1/30/2009

²³¹ John Kromer 1/30/2009

²³² Katz et al., “Rethinking Local Affordable Housing,” 102.

²³³ Katz et al., “Rethinking Local Affordable Housing,” 102.

²³⁴ Katz et al., “Rethinking Local Affordable Housing,” 102.

Table C: Regional Fair-Share Housing Allocation Performance Measurement Plan

Affordable Housing Goals	Outputs (1-5 years)	Outcomes (5-20 years)
Promote Balanced Regional Growth	Share of affordable housing in suburban jurisdictions	Geographic concentration of affordable housing
	Amount of residential investments in older urban neighborhoods	Average commute times (for each jurisdiction)
		Ratio of jobs to housing (for each jurisdiction)

Katz et al., “Rethinking Local Affordable Housing,” 104.

The federal government should take the success of the local performance measurement plans into account when reallocating funds for the following cycle.

State Government Role

State governments have three main functions in the centralized partnership model in relation to the financial and regulatory aspects of the incentive structure: to drive a competitive LIHTC allocation process based on individual project alignment with local coordinated strategies, to introduce pro-affordable housing mandatory zoning and land-use ordinances, and to work with their jurisdictions to come up with regional fair-share allocation plans. Additionally, for smaller urban areas that receive CDBG and HOME funds through states, allocation should be based on local leadership, coordinated strategies and detailed plans to effectively leverage private sector partners on specific projects.

States can alter zoning laws by creating ordinances that apply to localities within its jurisdiction that allow for garage apartments and different types of secondary units, so as to permit higher-density development and encourage a mix of housing densities in new housing projects through cluster-zoning or Planned Unit Development.²³⁵ In relation to the effective

²³⁵ Katz et al., “Rethinking Local Affordable Housing,” 69.

execution of the regional housing and smart growth goal, state leaders should require local jurisdiction political figures to participate in the regional fair-share allocation planning process so as to enhance the probability that local needs will be met and that regional goals will be created as a benchmark for all leaders. Such a collaborative process will enable state and local governments to implement policies that are tailored to local populations and also serve larger growth goals. The regional fair-share allocation process should also demand more accountability from all of the local public sector players and state policymakers, as these government levels are not only accountable for their local populations, but to each other. Through federal incentives, states should be motivated to both work with and provide additional incentives to local governments to conduct a unified affordable housing policy based on the components of the federal vision.

Local Government Role

While federal and state governments provide important incentives to inspire local leadership, local public sector action and planning based on such incentives is critical in terms of effective implementation and long-term impact. In relation to mixed-income housing, local governments have to leverage for-profit and non-profit participation in the creation of successful mixed-income developments. According to an article entitled “Rethinking Local Affordable Housing Strategies: Lessons from 70 Years of Policy and Practice” by Bruce Katz, “states delegate authority to regulate the private housing market to local governments, which then establish and enforce zoning policies, land use restrictions, development fees, subdivision and design requirements, building codes, rent controls, and other regulations that reflect local priorities and objectives.”²³⁶ Other tools that local governments can use to encourage mixed-income development include waivers or deferral of impact fees, fast-track permitting, lower

²³⁶ Katz et al., “Rethinking Local Affordable Housing,” 69.

parking requirements, and the loosening of design standards such as street widths and setbacks.²³⁷ Local governments need to create and continually amend inclusionary zoning practices and other land-use policies to reflect changing development patterns. For example, as land available for development decreases, inclusionary zoning requirements can be changed to apply to the rehabilitation of units and smaller developments.

The role of local government leaders in realizing the strategic community development goal is to set a strategy that spans across all public sector agencies, requires collaboration between these organizations, and engages for-profit and non-profit groups in the execution of affordable developments that include supportive services. The mayor should involve for-profit and non-profit partners and government agency counterparts in devising an effective strategy that outlines resident needs by geographic area and economic viability issues. Such unified strategy should also assign a public agency to the task of tracking success metrics and applying the results to delivery improvements. In relation to regional planning, local governments must receive additional funding based on their willingness to work with their state government to produce a regional fair-share allocation plan in which regional and smart growth goals are outlined and strategic community development and mixed-income housing are taken into account.

Private Sector Role

For-profit and non-profit entities need to be strategically utilized by local governments. Private sector organizations should be placed on projects that address all three goals within the large public sector affordable housing vision. For example, the RFP process to private sector players should include specific proposals for mixed-income and smart growth developments that provide supportive services to residents. In this scenario, for-profit leaders must be brought to the table to identify the economics of building a development near public transportation and non-

²³⁷ Katz et al, “Rethinking Local Affordable Housing,” 69.

profit organizations should be used to identify resident needs and concerns as well as the supportive services necessary to enable them to live peacefully and successfully in a new development. In relation to strategic community development, local governments will need to broker a process in which CDCs and social service practitioners are paired with for-profit developers or the local housing authority to highlight resident needs and develop the logistics of social service delivery to residents. For the execution of mixed-income housing production, for-profits, based on their strengths of intellectual capital and technical skills, should be involved with projects that require building affordable units in higher income developments. Non-profits must be leveraged to redevelop low-income areas into mixed-income neighborhoods and to purchase units developed by for-profit developers to sell to the lowest-income populations. If effective local leadership exists, private sector entities should have specific outlined roles in the affordable housing process that complement their strengths and how they can best contribute to low-income housing production.

Conclusion

The below chart outlines the structure of the new centralized partnership model.

Table D: Centralized Partnership Model Structure

Goal	Sector Affiliation	Direct Recipients of Goal and Funding/ Services Related to Goal	Functions	Leadership	Funding/ Incentives
Integration	All sectors	State and local levels, public and private sectors	Mixed-income housing development	Federal, state and local public sector leaders	Regulatory and programmatic and tax-based incentives built in to existing HUD programs/funding streams (specifically CDBG, HOME, Hope VI, & public housing, LIHTC & NSP)

Strategic Community Development/ Supportive Services	All sectors	State and local levels, public and private sectors	Promote resident self-sufficiency through supportive services such as housing counseling and job training	Federal, state and local public sector leaders	Programmatic and tax-based incentives built into existing HUD programs/funding streams
Smart Growth & Regional Housing	All sectors	State and local levels, public and private sectors	Reduce traffic congestion and socio-economic polarization through building affordable housing near transportation, good schools, etc...and revitalizing urban low-income areas to appeal to broader socio-economic levels and be more pedestrian friendly	Federal, state and local public sector leaders	Programmatic and tax-based incentives built into existing HUD programs/funding streams

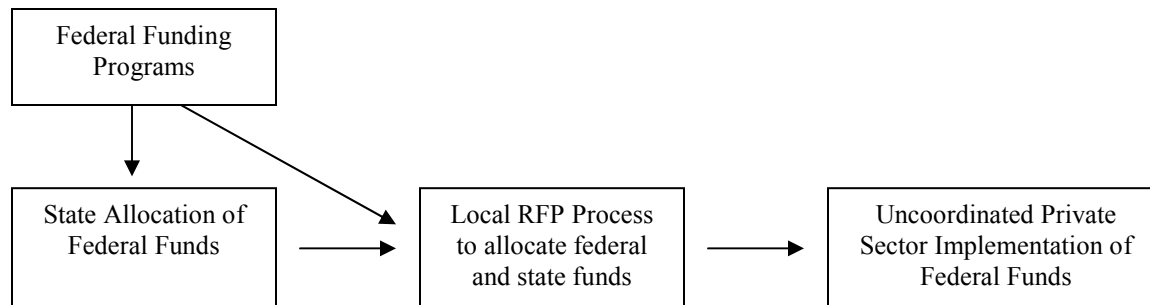
Unlike the process represented in the decentralized partnership model table, the centralized model is likely to be more holistic due to the fact that affordable housing policy is permeated by and grounded in a three-pronged vision set by the federal government, as opposed to a combination of distinct funding streams not tied to unified goals. All sectors are involved with each goal in the vision. Furthermore, under the proposed model, each goal spans across the entire policy field of federal, state and local public and private sector actors. While the federal funding programs that currently drive the affordable housing process are still relevant and equally important, their execution and effectiveness are now based on the pursuit of overarching goals. The funding programs no longer just allow for affordable housing production, preservation and rehabilitation, but they help form the backbone of national low-income housing advancement. So the centralized partnership model, in essence, modifies the current

decentralized process by connecting the players and programs through basing the policy arena and its actors on coordinated standards and tangible goals.

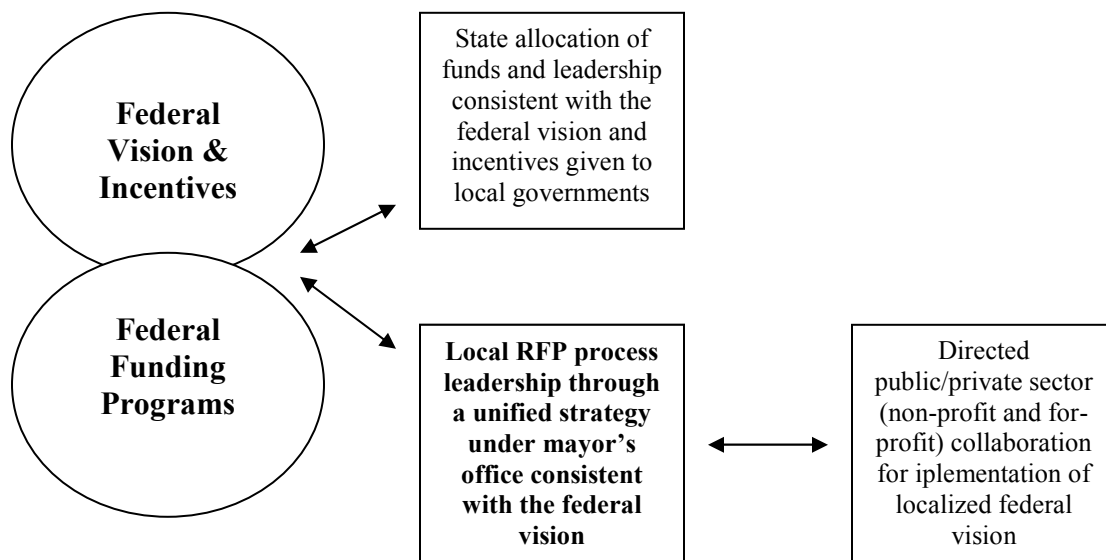
Thesis Conclusion

This thesis, “Affordable Housing & Cross-Sector Partnerships: Improving the Bottom Line,” set out to explore the nature of cross-sector partnerships in the low-income housing process. Through an in-depth study of each sector’s strengths and weaknesses the conclusion was drawn that every sector has indispensable strengths necessary for shaping and implementing the comprehensive and diverse facets that define the policies behind and the actors implementing affordable housing. However, the thesis also argued, based on an analysis of Philadelphia, that the current decentralized cross-sector model is inefficient in terms of maximizing the core-competencies of all the players involved and the efficient use of funding sources. It was recommended that a shift to a centralized system driven by public sector leadership, coordination and a specific vision including the goals of mixed-income and integrated housing, strategic community development and smart growth and regional housing, would greatly benefit the process. Federal regulatory, programmatic and tax-based incentives within the existing funding programs were explored as a viable tool to drive the centralized model in terms of encouraging local leadership, public and private sector collaboration and unification and adherence to federal big-picture affordable housing goals. The below diagrams illustrate the difference between the decentralized and centralized models.

Decentralized Cross-Sector Partnership Model



Centralized Cross-Sector Partnership Model



The bolded boxes under the centralized partnership model diagram represent the two most important players—the federal and local governments—in the affordable housing arena. While the federal government is imperative due to its role as the vision setter with great financial capacity and its ability to motivate the other players in the field with various types of incentives,

the local public sector is equally important because it is the actor that turns an overarching vision into a locally relevant action plan that is implemented through a specific private sector base. It is only through coordinated local leadership and innovation, as depicted through the Boston example, that the need for affordable housing, a place-based social ill, can be tackled head on through effective solutions tailored to local needs. Not unless both federal goals and local public sector leadership are present can the centralized model be successful. The effectiveness of these two players can bring about a more truly collaborative and meaningful process resulting in improvement to the delivery and impact of affordable housing.

A factor impacting this thesis that manifested itself halfway through the research process is the effect of the current financial crisis on affordable housing production. The low-income housing system is largely run on tax credits heavily bought by Fannie Mae and Freddie Mac, whose roles and capacities have completely changed over the past several months. Furthermore, the crisis has also caused a dramatic reduction of the private sector capital for, and pricing of, such tax credits. Simply put, the current economic and financial crisis is severely and negatively impacting the flow of capital needed for affordable housing production.

While the assumption was made in the introduction of the thesis that credit markets will ultimately reemerge, how the affordable housing players act going forward in dealing with this crisis is a significant question. In fact, such crisis further brings out and emphasizes a critical finding of this thesis...the need for a federal vision and public and private sector collaboration to realize such vision. In this transformative period, the application of player core-competencies and the efficient use of funds are necessary in order to maximize the amount of innovative, cost-effective and long-term solutions and policies that are created and implemented. Michael Stegman, the Director of Policy at the MacArthur Foundation's Program on Human and

Community Development, who has been a consultant to the Fannie Mae Foundation and an important policymaker at HUD, mentioned that it is imperative for innovative models at the state and local levels to emerge in response to the financial crisis.²³⁸ Based on the findings of this thesis and the fact that all affordable housing players are currently looking to the federal government for guidance and assistance, the urgent recommendation can be made that Barack Obama, Shaun Donovan and other federal leadership forces including Congress need to give local leaders the necessary vision, tools and incentives to create coordinated and unified low-income housing strategies that use private sector talents and resources to their fullest.

²³⁸ Michael Stegman 2/20/2009.

Appendix: Interview Notes & Sample Interview Questions

Sample Interview Questions

1. What role does and should each of the following play in the affordable housing process: the private sector, the government sector, cross-sector partnerships and the non-profit sector?
2. Which of the above groups should lead the affordable housing process and why?
3. What kinds of partnerships between non-profit community development organizations, private sector actors, and local and national government agencies are most effective in generating successful low-income affordable housing policy in urban areas with significant low-income populations?
4. What is the best delivery model for affordable housing?
5. What are the core-competencies of non-profit intermediaries such as LISC and Enterprise Community Partners? What do they add most to the affordable housing picture?
6. What is the most effective way for local and state governments and the national government to work together and efficiently drive the affordable housing process?
7. Are there city or state programs that best deliver affordable housing? If so, what are the common elements of success that these city/state programs have?
8. What are the strengths and weaknesses of the current affordable housing process (including programs such as LITC, CDBG, Vouchers, and the new National Housing Trust, etc...)?
9. How has your perspective on the role of the varying “players” and processes in affordable housing changed over the last 20 years?

Interview Notes:

Altman, Andy 1/22/2009

- City: policy/planning, regulator, funder (financial)
- 1) Policy: what is the policy, overall affordable housing
- 2) Regulator: Land use
- 3) Funding:
 - Federal Flow
 - CDBG: formula, programmatic asides
 - Housing Trust Fund, part of property tax, 10-14million, completely flexible, a lot of money given to non-profits
 - LITC, apply from state (Philly recommends to state)
- Most housing you have leverage multiple sources

- Land—own, 30,000 parcels of land
- Affordable housing: utilizing these resources
- Stabilization of housing stock, Philly less affected by economy
- Neighborhood Stabilization Program, 2 million homes for full acquisition
- Public housing—PHA, largest property owner
- Sect. 108 vouchers
- Vehicles: CDCs, PHA—Hope VI, are they replacing all the units?
- CDBG: consolidated plan—lays out Philly’s plan
 - Also look at Philly’s application for Neighborhood Stabilization Program
 - Could put out RFP, Philly Housing Development Corporation
- Partnerships: put out RFP, whoever gets it based on project viability
 - Question is who can deliver a profit
 - Non-profits don’t always have same capacity as private sector
- Pre-development, city uses land as contribution
- Deals always in-flux, challenge is when to pull plug
- Reporting guidelines
- It’s hard to have one money pot
- ***POLITICS: have funds been going to viable? Need to make process competitive, have in past given money to same groups
 - Land disposition process messed up
 - Barriers to private process, politics, takes a while to get land
 - Intersection of funding and bureaucratic process, partly because so many requirements exist and more money spent on administrative tasks than affordable housing
- Also have to think about neighborhood revitalization, did an RFP, put in criteria to look at how the project is part of a larger revitalization effort
 - **City has control, where do we focus the housing process?

What programs are most effective?

- Tax Credit Program: Can calculate into pro-forma, non-profits can access it, is a more efficient vehicle and less politicized
- Block grant program also good
- Tax Abatement Program: very successful, always at the margin bc/value not high in Philly, ex: the Cira center was built off of subsidies
- Affordable housing will continue, federal stimulus money could increase affordable housing efforts bc/is essentially a gov. created market
- Now we have foreclosure issue, bc/will destabilize area and drive down property values
- Issue w/credits, so city has bigger subsidy—fewer units, and city has to spend money that could have been used for affordable housing on foreclosures
- CDBG and Trust Fund—re-allocate to homeless issue in city, tighter strain on \$
- Cities can’t produce affordable housing fully, no revenues to make up loss, need other force such as federal gov.

Bear, Matthew H. & Stephanie Wall 12/11/2008

- 1) Funding comes from everywhere
- Federal funds given to CDC's through the city
- OHCD—distributes money, city gets 75%???
- Housing Trust Fund—Title Transfers
- Proposals—complex
- OSH—apply to them, another round to HUD, nice to just go to city
- 2) PA Housing Finance—entity tax credits, most complicated, need consultants
- Federal Home Loan Bank, max 650, complicated
- PHFA: denied from the most, economy important factor, tax credits end up not being worth that much
- 3) Private Funding, banks, home depot
- LISC, Enterprise Center—national intermediaries
- Selection: units tied to housing, does community support housing? Community v. city
- 4) DCED, state level
- Get funds from federal government
- Application in one spot
- Federal, state and city governments, same agenda—good?
- Submitted on file
- Green: LEED consultant, RDA, Division 15 and 16, water conservation, silver rated
- Have limitations
- Takes so long to get funding sources, then cost changes
- ***Tension: central v. flexibility w/local
- Low-Income Housing tax credits, gov. losing 30 cents for every dollar
- Private:
 - Cloisters so big
 - Pennrose
 - Building quality the same, Cloisters 3, PEC built
 - Private, property management
 - Not huge role for private sector, investing \$ to help them
- Process starts when: someone notices vacant land, see, think, find out who owns, acquisition (city ownership)
- Where do you get your money first?
- Takes a couple years to get money, plans, submit to RDA, bid out to architects, envision phase 1 and 2
- So 1) get money 2) bid
- Quality v. getting things done (Fattah)
- Ex: compromised on expensive brick, changing windows
- Problems with carpet, looking at alternatives
- Matt's ob as an architect is to cut costs
- Matt: is RDA and Consultant
- Every 2 weeks job site visit

- Different departments on different things
- More collaboration between social service division and CDC
 - Bridge community gap
- Social services: who will live there...after built key handed to social services
- Case manager: cloisters 3, open to community, does walk through, doesn't deal with clients directly
- Penn architect school and HUD Comm/Univ. partnership (Richard Wessling)
- Penn, improve park
- LISC West—collaboration between CDC's in Philly, collab. Enterprise CDC, Project HOME
- University City District
- ***most efficient thing would be to have gov. solely do affordable housing process
- CDC—get it started, don't revitalize private development
- CDC's: accountability, gov. can never low on ground
- Innovation: digital inclusion, private sector—taking some private sector ideas
- Partner with banks
- Policy goals
- Impact: clients, neighborhood (real-estate values, neighborhood surveys)

Egan, Conrad 2/27/2009

- More activity at state and local level in comparison with federal level
- Need stronger affordable housing network
- Very little difference between for-profits and non-profits—both make fees, make profit, money goes to vision and investors
- Nonprofits not consistent, DC, Boston and San-Francisco have strong nonprofit networks
- HPN is good indicator of spottiness
- Need state and local awakening of importance of housing
- SHAF organization, Bill Kelley, headquartered in Washington
- More confusing, complex landscape then was when complete federal control of affordable housing
- In glory days of sec. 8 program in 70s, almost always for profit developers could easily nail down site, not complex local approval program, got AHAP, then HUD, says you complete steps and we will give you site, get 224 D4 insurance, take to local S + L and get financing based on FHA assurance
- Call NHP inc., get NHP to syndicate tax benefits, pre-1986
- NHP would sell tax through broker like Merrill, thirst for tax benefits at individual level
- Now you have “lasagna deals”, LIHTC, tax funds, have 2 kinds of debt
- More expensive to produce, but more eyes on the deal, more people with skin on the game
- Tax credits—program investors at risk
- Bank appetite decrease
- 1 ingredient for success-political leadership! Mayors, county heads, etc...
- Not much leadership on federal level, Mayor Menino, Daily, Fenty, Jerry Connolly

- Someone to demonstrate that support for housing is high priority, hard to train people in this
- Housingpolicy.org, wiki of affordable
- Housing can see result of willingness to exert political capital
- Function of white house needs consistent support from office of urban policy
- IRS, also department of transportation—transit oriented development important, T4America
- Beltway burden, heavy load concept, need strong congressional support, need a Barney Frank/Chris Dodd
- Federal government needs to play new role, identify ingredients for success, provide incentives for land use, goes to transportation area
- Need to make production more accessible
- Need outside influences, Neighborworks great example, important player
- Macarthur and Clinton Foundations, major initiatives to provide funding
- Need to support training of state and local jurisdictions
- HPN—help groups work together, people to sit on boards
- 5 million in stimulus, preservation, lowest-income, need to preserve currently assisted affordable properties, make de facto developments
- Fairfax County—purchase property to reserve de fact developments
- Need to produce aff. Housing, find places, need to develop compact developments to rezone and connect to transit
- Lincoln Land—article, rezoning approach
- Preserve concept of mixed-income housing, includes lowest-income, biggest challenge, need to increase sex.8 deep subsidy system

Guard, Gloria 12/2/2008
(E-mail correspondance)

-I got a chance to review your questions today and I think they are very comprehensive, they cover many areas in the affordable housing world. I am not sure if your answers will cover the barriers to development or some of the other trends which you may have read about in the Harvard publication etc. They seem to be aimed mostly at specific developments here at PEC.

-The best next step for you would be to visit PEC specifically the CDC and take a tour of the cdc developments. I have copied Kira Strong and Noemi Diaz so that they can help schedule this. You do not need me to take you on the tour, perhaps Matt or Stephanie or Monica could tour you around. It will depend on people's time. We have tons of hard facts and figures about sources of funding for each development and, in all cases, we were the "driver" in the developments. Hopefully as you tour around and ask questions, you will be able to narrow the scope of your paper and develop a thesis for use in these very tumultuous times. As you know, the banking industry and the housing industry are inexorably tied to each other, so the housing industry is now facing a pretty enormous crisis of confidence, and any research on how to get these housing units built for the future would be very helpful.

Kaplan, Ron 1/18/2009

- DC affordable housing policy—solicit developers, when gov issues RFP, must follow DC housing requirements
- 20% units have to be affordable
- *How do you define affordability?* 10% at 80% of AMI (average median income)
 - AMI in Bethesda is higher than AMI in lower income area, for ex: 80% would be 64,000, you can still pay rent—may not affect development
 - Other 50% at 60% AMI—low-median income, start to have to reduce rents
 - Anacostia Waterfront Organization—semi-public and private, people saw an opportunity to set new standards, wanted even stronger affordable housing
 - 30% set aside for affordable housing, 15% of overall had to be at 30% of AMI, 15% at 60% of AMI, so talking about poor people and lower rents, **people that vote don't understand, great goal but no one can do it
- Bids assumed what private developers had to do
- 1) set policy 2) project—waterfront, solicit proposals, how much will you pay government, developers lose a ton of money on building, the additional cost is 60 million
- No one on city council had any concept of this, ultimately affordable housing is still a real-estate deal
- ****POLICY QUESTIONS** *Land at waterfront valuable, do you want people of lesser means to live everywhere? Or instead of providing 60 million cost to city, we'll give you more units (200) but well do it a mile away, it costs less but its more affordable housing*
- What AMI levels do you require? Does the affordable housing have to be on-site?
- 1 mile away more efficient
- Need integrated units
- Developers saying we have an obligation to build affordable housing, but why does it have to be on site
- Very political process, city council guy made it sound one way
- Ron was looking to invest in waterfront, but new AMI requirements killed any deals
- Now its tricky bc/you cant say affordable housing has to be reduced but returns aren't attractive to developers, have to say found another way to create more affordable housing
- Why would developer do this when gov. policy adds so many costs
- Andy: you don't turn over to developers to do what they want, you insist policy goals, ex: affordable housing, open space
- Ex: should poor people have views of central park? Capitalist society, rich people need a view, BUT when Montgomery County becomes so expensive, perceived as a problem
- When 50 new homes built, gov. has control, should they require some to be sold at 700,000 (he thinks not)
- *As long as rules consistent, it means that farm would only have value of x, when you suddenly change pricing, its bad*

Kromer, John 1/30/2009

- City redevelopment authority—state charter
 - Issues bonds, eminent domain

- State charter, gov. board
- Sometimes have entities merged
- Sometimes housing authority and redevelopment authority part of the city gov.
 - PHA—is Philly’s leading developer
 - 2 authorities, don’t need city housing department
 - OHCD, whose in charge, what’s the relationship?
- OHCD: employees work for mayor, not civil servants
 - Weakness: no bond power, has to go to city’s law director and comptroller, cant turn around property transactions overnight

1. Levels gov...strengths and weaknesses? Should process be streamlined?

- Fed level problem: CDBG, HOME managed through one division of HUD, and public housing is totally different process with different funding...need to combine 2, give cities more flexibility
- need more accountability, PHA is free agent—serious problem
- State level: provides some money, small amount, more flexible, used for home preservation—is a good thing
- PHFA—gives development funding, well administered, has 2 good programs to help with foreclosures
- LITC—funding awarded in competition
- Local: number of agencies not big problem if the issue of who is in charge is addressed
- City, through OHCD, has contracts with non-profit’s, want to outsource
- Everyone needs to support mayor!
- Rendell (when he ran OHCD), tension between redevelopment authority and OHCD, OHCD would do policy, plan and budget and the authority would be implementer, issue over who would get money
- Final decision up to RDA
- Terry Gillin—prima person now to talk to in housing
- ***Call for consolidation misdirected, real issue is leadership and process
- Fed. Level—HUD secretary fine
- ***Cities have to get organized at local levels, need everyone rallying under mayor
 - Philly took good step in having Nutter appoint himself as head of PHA

2. Partnerships

- Annual RFP
- Consideration given to non-profits and neighborhoods with strategies
- Some groups have money and connections and thus get projects
 - Need to be more fair, and provide access to everyone to build housing
- Need clear criteria
- Vacant homes—you get subsidy, rehab, sales price goes back to pay loan, good program, **this is key way to attract new developers
- Head of program would do proposals with developers, this is new and not like government system normally
 - this program is way to let ambitious developers in
- for top non-profit development groups gov. will them develop plans and get land for future development

- APN (association of Puerto-rican??)—gov. helped them, now have over 130 units and did new town homes and green space, in area in north philly near central campus of Temple
3. Outcomes measurement, tracking residents
- Not enough studies that look at affordable housing projects
 - 2001 study—good results, most places were occupied so money not wasted
 - Turnover—mostly you see same people are there, where did people come from that moved there? A lot of times from nearby blocks where people were happy
 - *Nobody looks carefully enough at resident patterns and effectiveness of housing
 - ***this would be very helpful in terms of refining and revising housing programs
4. Non-profit v. private sector attributes
- Tension between private and non-profit sectors
 - For-profits work with community groups like churches, so can also be in synch with community needs
 - Public housing funds, until 1990's were inflexible
 - New MOVING to WORK program to make subsidies and funds more flexible
 - Giving cities flexibility is key, but HUD obviously has to require plans to ensure accountability
5. Economy
- Rental housing—will be increased demand for rental housing bc/of economy and foreclosures, public funds should be more flexible
 - Most cost-effective policy would be to do rent subsidies, section 8 program, city should just reward public housing subsidies, need more flexibility, would be cost effective
 - ***link housing subsidies with workforce development programs, job readiness programs—if one had a rental subsidy linked to a job, you could monitor newly placed employee

Mandujano, Gabriel 1/22/2009

- Land, financing, demographics, could be public
- Loans, Community Reinvestment Act (LISC, Enterprise)—private sector influenced by the public sector
- PIDC—private sector issuing gov. money
- Grant from foundation
- Assemble what's available of resources
- Demand: private, market
- Project management, PHA, private sector
- Private sector could be many things
- Structuring of projects vary
- Responsibilities for projects not the same
- Time can pass—inefficiency
- PHA—cookie cutter model
- **can't have one model for affordable housing bc/each case so different
- Operating and capital financing, don't take upside risks
- Non-profits need to get funding from diverse avenues

- Small non-profits have timing issue—getting financing to carry out a project is hard
- The Walnut Hill plan mentions that one of its goals is to encourage long-term affordability. How will the CDC go about promoting and implementing this goal when subsidies expire?
- LITC expire after 15 years
- KEY QUESTION: How do you keep housing affordable?
 - Control land, own property
 - Community land trusts with a community board, own grounds, like homeownership but money goes back to community
 - Co-op housing, own share of company that owns it, real property, put in covenant saying no increase in resale values
- Don't trust community boards and CDCs
- ***Over long term: CDCs become increasingly professionalized
- Co-op housing is the best strategy bc/of non-changeable covenants and you are decentralizing control over land
- Challenges to co-op housing:
 - Developer side—transfers control from themselves to the co-op structure
 - Need to create awareness on part of consumer and developer
 - Banks understand this, more liquid system
 - Challenge 2: laziness, easier to build LITC deal than co-op, also have to organize membership of co-op, educate banks, creative financing
 - ***need to place more emphasis on social capital
- UCD, PEC, are in partnership with them but they all have different approaches
- At some level competition is a good thing!
- CDCs that want to build need to have a big enough area
- Inefficiencies: CDCs should be able to acquire and hold land, CDCs need to hire good staff
- Not a lot of economies of scale, gain from learning from one another
- Also need people close to communities to understand needs
- The goals of the affordable housing producer vary, sometimes there can be a focus on neighborhood revitalization as well, sometimes there can be a focus on just affordable housing and producing units
- Worked w/consultant, developed surveys
- Logic model approach, choose big impact goal
- Resident leadership, preserve social and economic diversity of neighborhood, etc...goals of CDC
- From outputs you choose your methods, where evaluation comes in
- Ex: build leadership through training, then you assess whether the method was the right tool and then you can re-evaluate
- Hard to get renters involved, reaching out mainly to those who have tenure in area, but have to reach out to renters for time period they are there...means need to maintain constant outreach to new and old renters, have to knock on their doors
- Have a home repair program, want to do scatter-site homeownership, could buy to build scale and then develop

- ***HRP Program—Office of Housing and Community Development, pay your developer fee and grant to rehab 115K + 35K to buy and renovate house and you get 15K fee
- Co-op housing, people need to believe CDCs has competence in housing, need balance sheet and income statement (which they do not yet have)
- Now they are focusing on data from street team, developing grocery store in community corridor
- Working on resident training, W. Philly high, get home repair programs
- Penn helps
- **private developers bring credibility and expertise, collateral

FINANCIAL CRISIS:

- Operating money from foundations
- City money—huge problem
- Everyone hopeful for federal government
- Center for culinary enterprises—will need federal money for completion
- Federal government will be bigger player on project level
- Financing:
 - Harder to get money
 - No more buyers
 - Foreclosures hit Philly and Walnut Hill not as hard and interesting opportunities come up because of it
 - Neighborhood Stabilization Program: you as CDC not taking any risk
 - Best-scatter site rehab program

Stegman, Michael 2/20/2009

- The government is in a tough position now
- Key question: Am I assuming crisis will change system, or assuming credit markets will resume?
- CDCs will not make, we will lose small non-profits, there will be some level of consolidation, doesn't necessarily mean there is a smaller role for non-profits
 - Scale and balance sheet, financial sophistication will become increasingly important
 - Will see survivors
- National Housing Trust, Low Income Trust in San Francisco...will be self-helps of the world to help design new models
- CDFI's will not make it (a lot of them)
- Foundation Community cannot become capital providers of last resort
- Macarthur "Window of Opportunity" program, invests in better and stronger non-profit's
- Can't equate non-profits w/CDCs, owners Macarthur supports different, they are the strongest and the best, capitalized, most vertically oriented
- Small scale CDC model may well go extinct, grew generations of expertise, had scale for 20 years
- LIHTC, systems became critical vehicle for CDs, it became efficient in delivery of formal rental housing
- Economics of small-scale organization's bad, unclear what will happen to LIHTC

- 2.25 million go to states will be interesting to fill in gap on projects—how that evolves is unclear, stimulus in other areas suggests we are
- Fannie, Freddie, and banks problems now, so don't know what delivery system will be in the future
- Put money into housing trust fund (**), but supposed to be capitalized by Fannie and Freddie, so no new sources of capital
- Using HOME delivery system doesn't align with states
- A) we aren't sure what non-profit partners will look like
- B) don't know where deep subsidy will come from
- Is their role for Neighborhood Stabilization on CDC side? Can they move themselves in critical positions?
 - A lot of money running through Philly, NEED NEIGHBORHOOD PRESENCE, somebody has to connect family to assistance
 - People that are behind don't contact lenders, a problem so need outreach
- Need to figure out who will play critical roles in mitigation, MAYBE CDCs
- Inclusionary zoning: need vibrant market, none of that in crisis works, but is an important arrow into the quiver, agrees with policy normally
- Has to be reliable source of subsidy, want to see private capital and responsible private developers in market, but they won't be attracted unless subsidies
- Most sophisticated nonprofit developers like for profits—NEED BOTH
- Low Income Housing Coalition created the Housing Trust Fund, thought we had created a production program of first two decades in conjunction with tax credit
 - Trust fund's flexibility was such that you could use it to overcome barriers, could be used to buy buffer space
 - Having a Trust Fund at the national level could provide flexible gap financing—was important missing element
 - Trust fund could be used to preserve affordable housing, reinvested Hope VI, stronger direct participation from HUD in relation to preservation
 - *****watch for innovative models at the state level
 - HUD secretary spoke at NYU, laying out priorities, mainly foreclosure but talked about rental...lays out policy for first 4 years
 - has to address HOPE 6, has to be re-authorized, thinking about broadening it to include bad legacy HUD housing (not public housing)
- Not going to see new production program

Sussman, Monica 1/19/2009

- Depression, country a mess, 1934 housing Act 1934, utilize private sector
- Congress always utilize private
- FHA: mortgage insurance for single family and multifamily, government ensured mortgages by private sector, 90% financing backed by federal government
- Also have public housing
- Government owned housing, goal to move out and on but became concentration of poor/minority population

- Late 60's: multifamily rental, HUD provided subsidies, reduced interest rates on mortgages through government subsidies
- Then Nixon moratorium, then Congress established 108 program
- 108: tied to project, tenant paid 30% of rent, gov. paid rest, built housing for poor people, combined w/FHA insurance
- 20 year contracts of section 108 ended in 90's, government had huge costs, issues that residents couldn't move, no sect. 108 funding since 88
- 86 reform tax—LITC, gov. provides credit on tax returns, state get allocation, the state has people apply for credits, used as equity financing, affordability requirement for 30 years, brings I partner, sells to investors such as Fannie Mae, Freddie Mac
- Public housing: pull up by bootstraps, located in bad areas, NIMBY Hope VI program
- Late 90's concluded that housing authority didn't have to own housing, could be owned by private
 - Leased to part that brought in tax credits, half public housing
 - Became subsidy, goal to create mixed income
- Mixed income housing flawed—NIMBY
- Local:
 - Zoning (ex: Montgomery county), permitting, inclusionary zoning, but fact is that local areas don't have big bucks needed to sustain affordable housing, HUD 80% AMI, tax credit 60% AMI
- LITC: run by Treasury, IRS code, run by states, treasury decides how much to allocate to states
 - Banks participate in this bc/get CRA credit, otherwise PRIVATE SECTOR DOESN'T CARE
- Key question: how do you get to cost/rehab low income areas, who pays the differential?
- CDBG—can be used for housing and non-housing
 - 3 million of section 108, 3 million of public housing, DC/Bethesda renovated from tax credit program
 - Federal laws and discrimination laws—provide the basis of affordable housing industry
 - Every state has housing finance agency but noting compared to the federal government
- 1) marginal insurance
- 2) marginal subsidies
- 3) subsidies
- 4) direct subsidies
- 5) LITC
- 6) LITC rental housing
- Barney Frank, draft preservation legislation, projects coming to an end, need to provide incentives
- Law doesn't like to see non-profits, very few non-profit owned housing, if housing value raised, want to take money and apply to other non profit activities
- Ex: South Florida, Biscayne Bay, land owned by teachers, sell land to someone else, rebuild for people, BUT teachers wanted money for teacher stuff

- Ex: church developed housing, can't discriminate but it still indirectly happened, then people moved out of neighborhoods, and the land became bad and the church had no interest in land anymore
- LITC: give preference to non-profits, requires owners be for profit at end of the day, non profits can be managing partners
- Ownership entity is private, why do you give non profit a leg up when competing equally with private sector?
- Barney Frank: right of first refusal in his legislation
 - non-profits have missions but no better skills or access to capital, national non-profits act just like for-profits, ma and pa non-profits don't have resources, Patty Fay?
- Government needs to get system going, stimulus bill, tax credit market upset because market disappeared, technical tax changes to spur industry
- Refund of credit, 5 year credit program
- As a result of meltdown, cant get mortgage loan so people ran to FHA
- Syndication community got too narrow, Fannie Mae and Freddie Mac, B of A had 60% of housing market
- People wanted Congress to make investments of credits to more diverse marketplace
- Maybe make shorter investment requirement
- Programs revolved around direct grant, loan or tax subsidy—variations on same theme
- 10. *What's the best delivery model for affordable housing?*
- HUD programs shelf-life 5-7 years, then we are spending too much money
- Tax credit program—states have to come up with tax allocation program, point system sustained for 20 years
- Parameters say rents set at AMI, residents pay 30%--narrow band as to who can live there, can marry credit program with voucher
- At end of the day affordable housing about money
- Programs at HUD work nicely but are expensive
- HUD budget about 36 billion, 20 for Section 108, 15/16 billion to renew vouchers, 6 for public housing, rest around 5 for CDBG...big picture THIS IS NICKELS
- Some states have own tax credit programs
- Disintermediation: 30's and 40's had S+L and had people making deposits
- System that we now have is national and international (GLOBAL ECONOMY), money is now coming from wall street not from direct community, city/states CANT COMPETE on this level
- City/states can really only using zoning/permitting and local real-estate taxes, incentives to bring in small businesses
- Hope VI developments were partnerships, HUD control, non-profits and private sector, LITC, bond debt
- TAKES A VILLAGE TO PRODUCE AFFORDABLE HOUSING
- Skills
 - Government: can do the right thing, no discrimination
 - Private: creative using gov. programs, development, management
 - Non-profit: strength in services to people
- NEED TO TIE ALL THESE PIECES TOGETHER for a finished product

- Has to be a combination of the best of all skills
- Non-profits have to make money, same constraints as private sector to some extent
- Units created are not enough, need covering—not touching tip of iceberg
- Go from lowest income to teachers/firemen, not making enough money to live in their own communities they serve, a problem, ex: Aspen, most people live 30 minutes away
- Moderate income people don't qualify for credits
- New provision, appropriations bill, allows movement of subsidy from one property to another
- Development owned for seniors in St. Louis by non-profit, many people no longer living there, Katrina people are there, can't come up with money to fix it
- Move to newly rehabbed site has: senior building, family building, senior home (3 parts), general partner the same but the projects are different

-section 108, reduced the number of units by move

-was able to consolidate use agreements into one use agreement that made sense

***HUD ORGANIZATION:

-HUD not organized, most recent HERA conference-make HUD programs work more closely with/complement LITC programs

-all programs meant to serve same people, but there is a lot of overlap of HUD programs and LITC

-lack of trust between government levels (state, federal, etc...), policy and mindset therefore NEEDS TO BE CHANGED, everyone is afraid of inspector general

-but FEMA had horrible reaction in New Orleans, so maybe HUD not that bad

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